

**South Carolina State
Ports Authority**
Financial Statements and
Required Supplemental Information
June 30, 2020 and 2019

South Carolina State Ports Authority

Index

June 30, 2020 and 2019

| | Page(s) |
|--|---------|
| Independent Auditor's Report | 1–2 |
| Management's Discussion and Analysis | 3–12 |
| Financial Statements | |
| Statements of Net Position | 13 |
| Statements of Revenues, Expenses and Changes in Net Position | 14 |
| Statements of Cash Flows | 15–16 |
| Notes to Financial Statements | 17–53 |
| Required Supplemental Information | |
| Required Supplemental Information | 54–58 |
| Compliance Section | |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards..... | 59–60 |
| Schedule of Findings and Questioned Costs..... | 61 |

Independent Auditor's Report

To the Board of Directors
South Carolina State Ports Authority
Mount Pleasant, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the South Carolina State Ports Authority (the "Ports Authority"), a component unit of the State of South Carolina, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Ports Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Ports Authority as of June 30, 2020 and 2019, and the respective changes in financial position and, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3-12, the Schedule of the Ports Authority's Total OPEB Liability on page 55, the Schedule of the Ports Authority's OPEB Contributions on page 56, the Schedule of the Ports Authority's Proportionate Share of the Net Pension Liability on page 57, and the Schedule of the Ports Authority's Pension Contributions on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient audit evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2020, on our consideration of the Ports Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Ports Authority's internal control over financial reporting and compliance.



Charleston, South Carolina
September 24, 2020

South Carolina State Ports Authority

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

Annual Financial Report

The annual financial report of the South Carolina Ports Authority ("Ports Authority" or the "Authority") provides an overview of the Ports Authority's financial activities for the fiscal years ended June 30, 2020 and 2019. Management's discussion and analysis should be read in conjunction with the Authority's accompanying financial statements and notes to the financial statements.

Certain information provided by the Ports Authority, including written, as outlined above, or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, which address activities, events or developments that the Ports Authority expects or anticipates will or may occur in the future, contain forward-looking information.

Actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

About the Authority

The South Carolina Ports Authority was created in 1942 by Act Number 626 of the South Carolina General Assembly for the general purposes of developing and improving the harbors and seaports of Charleston, Georgetown and Beaufort for the handling of waterborne commerce, and to foster and stimulate the shipment of freight and commerce through these ports. The Ports Authority has no stockholders or equity holders and is directed by a governing board, whose members are appointed by the Governor of South Carolina for five-year terms. The Board consists of nine voting members and the Secretaries of Transportation and Commerce as additional ex officio, nonvoting members. The Ports Authority owns and is responsible for the operation of six ocean terminals at the ports of Charleston and Georgetown, as well as inland port facilities in Greer and Dillon. These facilities primarily handle import and export containerized, breakbulk, and bulk cargoes.

Operational Update

- During fiscal year 2020, the Ports Authority handled 2,324,985 twenty-foot equivalent units (TEUs). This represents a decrease of approximately 2.8% over fiscal year 2019 and a 5.7% increase over fiscal year 2018.
- The rail-served inland ports continued to grow and capture market share in fiscal year 2020. Inland Port Dillon, situated on Interstate 95 in the Pee Dee region of South Carolina achieved its highest fiscal year volume on record with 32,453 rail moves, representing 9.7% growth over fiscal year 2019. Inland Port Greer, situated in the upstate of South Carolina, achieved 140,155 rail moves in fiscal year 2020, which represents a compound annual growth rate (CAGR) of 19% since its first full year of operations in fiscal year 2015.
- As the Authority focuses on completing Phase 1 of the Hugh K. Leatherman Terminal (Leatherman Terminal) and modernizing operations at its Wando Welch Terminal, fiscal year 2020 represented the largest capital spending campaign in its history. \$229 million was invested in port infrastructure during fiscal year 2020 along with a contribution of \$100 million to the South Carolina Department of Transportation to assist in the construction of the Port Access Road to Leatherman Terminal. The Leatherman Terminal is the only greenfield container terminal currently under construction in the United States and is slated for opening in March 2021. Completed projects during fiscal year 2020 at the Wando Welch Terminal include:
 - Commissioning of three ship-to-shore cranes and 18 rubber-tired gantry cranes;
 - Opening of a new, on-terminal chassis yard;

South Carolina State Ports Authority

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

- Traffic flow enhancements, including a five-exit roundabout and replacement and widening of truck lanes;
 - Refurbishment of a 188,000 square-foot warehouse for a new import distribution operator
- In July 2017, the Authority executed the Project Partnership Agreement with the Department of the Army to begin the construction phase of the 52-foot harbor deepening project, which will result in the deepest harbor on the east coast. During fiscal year 2020, President Trump signed the FY2020 Energy and Water Appropriations bill into law, appropriating \$138 million of federal funding which fully funds this project to completion. By 2021, the entrance channel and Wando turning basin portions of the project are estimated for completion and the remainder of the project is on track for completion by 2022.

Financial Update

- The Ports Authority's total net position was \$744.0 million, \$856.5 million, and \$814.4 million as of June 30, 2020, 2019, and 2018 respectively. The Authority's total net position decreased \$112.5 million during the current fiscal year and \$70.4 million from fiscal year 2018 as the Authority constructs the Leatherman Terminal and makes significant upgrades to equipment and current infrastructure.
- The Ports Authority generated operating revenues of \$292.3 million for the fiscal year ended June 30, 2020. This represents a decrease of 0.7% from the \$294.3 million generated for the fiscal year ended June 30, 2019 and a 16.0% increase over revenues in fiscal year 2018 of \$252.0 million.
- Cash flow from operating activities was \$88.7 million in fiscal year 2020, representing a 2.0% decrease from fiscal year 2019 and 20.5% over fiscal year 2018.
- During fiscal year 2020, the Ports Authority issued Series 2019 Revenue Bonds (A,B,C,D) with proceeds totaling \$698.4 million. The Series A (Non-AMT) and Series B (AMT) proceeds totaled \$421.6 million and will go toward phase one of the Leatherman Terminal, including construction and equipment purchases, as well as for the Authority's share of the Port Access Road, which will connect Interstate 26 to the new terminal. The Series C proceeds of \$125 million and Series D proceeds of \$151.8 million were used to refund portions of the Authority's outstanding Series 2015 Revenue Bonds.

Novel Coronavirus (COVID-19)

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency directly related to a new strain of coronavirus originating in Wuhan, China (COVID-19) and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. Many countries around the world, have implemented significant governmental measures to control the spread of the virus, including temporary closure of businesses, severe restrictions on travel and the movement of people, and other material limitations on the conduct of business. As an essential business, the Authority has maintained normal operating hours throughout the pandemic in order to keep the supply chain open. However, the impact of COVID-19 can be seen throughout all operating business segments in fiscal year 2020.

Container Business Segment

After achieving record container volumes in fiscal year 2019, the Authority continued to grow at a record pace for the first eight months of fiscal year 2020, represented by a 3% fiscal year-to-date increase through February 2020. As the impact of COVID-19 set in, the Authority experienced monthly year-over-year pier container volume declines in March (13.0%), April (13.4%), May (17.0%) and June (21.2%). The Authority ended fiscal year 2020 with a final pier container volume of 1,317,332, a decrease of 3.4% from fiscal year 2019. Although volumes declined, the Ports Authority received modest rate increases during the second half of fiscal year 2020, driving total revenues associated with the container business segment up from \$253.3 million in fiscal year 2019 to \$258.5 million in fiscal year 2020, an increase of 2.1%. The Ports Authority's current expectation is that depressed volumes will continue through the first half of fiscal year 2021 with a moderate recovery period beginning during the second half of the fiscal year.

South Carolina State Ports Authority

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

Breakbulk & RoRo Cargo

The Authority also realized breakbulk and rolling stock cargo increases over fiscal year 2019. Through the end of the third quarter of fiscal year 2020, pier vehicles were up 27.0% over fiscal year 2019, while total breakbulk tons were up 23.1%. Beginning in March, the Authority began to see declines in vehicles and breakbulk pier tons as COVID-19 disrupted supply chains and forced regional automotive manufacturers to shut down temporarily. As a result of this, the Ports Authority reported monthly pier vehicle declines, as compared to fiscal year 2019, in April (53.5%), May (88.3%) and June (22.0%). Similarly, breakbulk pier tons also experienced monthly declines when compared to fiscal year 2019, in April (47.7%), May (76.6%), and June (17.5%) with the decrease in vehicles driving the variance. Despite these fourth quarter declines, the Ports Authority finished fiscal year 2020 with total pier vehicles of 199,825 and total pier tons of 636,278, an increase of 2.5% and 1.8%, respectively, over fiscal year 2019. By July 2020, all regional automotive manufacturers reconvened operations and are on full schedules with no anticipated shutdowns moving forward.

Cruise

As a result of COVID-19, all cruise dockings at the Ports Authority were suspended by the CDC in mid-March 2020 and have not resumed. Despite the suspension, passenger levels for fiscal year 2020 were higher than fiscal year 2019 as a result of the upsizing of the homeport Carnival Cruise Line vessel from the Ecstasy to the Sunshine in June 2019, which has approximately 46% more passenger capacity. For the fiscal year ending June 30, 2020, total cruise passengers were 217,673, an increase of 2.2% over fiscal year 2019. The Ports Authority continues to monitor expected timelines to resume operations from the CDC and Carnival Cruise Line.

As of the date of this report, the Authority has not experienced any losses in rental revenues or credit losses on accounts receivable as a result of COVID-19. Should the need arise, management is prepared to enact additional cost savings measures to maintain the financial stability of the Ports Authority. However, the full impact of the COVID-19 outbreak continues to evolve and as such, it is uncertain as to the full magnitude that the pandemic will have on the Authority's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry and workforce.

Analysis of Overall Financial Position and Results of Operations

The Ports Authority's performance measures during fiscal years ended June 30 are as follows:

| <i>(in thousands)</i> | 2020 | 2019 | 2018 |
|---|-------------|-------------|-------------|
| Total operating revenues | \$ 292,256 | \$ 294,326 | \$ 252,013 |
| Total TEUs (equivalent number of 20' container units) | 2,325 | 2,393 | 2,200 |
| Breakbulk pier tonnage | 636 | 625 | 761 |

A total of 1,567, 1,696, and 1,705 vessels (excluding barges) docked during the years ended June 30, 2020, 2019, and 2018, respectively. The Authority is ranked as the second busiest port in the South Atlantic Coast in volume of TEUs and ninth in the United States.

South Carolina State Ports Authority
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

Statements of Net Position (Balance Sheets)

A condensed summary of the Ports Authority's balance sheet and resulting net position at June 30 is shown below:

| <i>(in thousands of dollars)</i> | 2020 | 2019 | 2018 |
|---|----------------------------|----------------------------|----------------------------|
| Assets | | | |
| Current assets | \$ 705,959 | \$ 586,714 | \$ 610,497 |
| Held by trustee for debt services | 31,518 | 34,160 | 20,007 |
| Capital assets, net | 1,599,623 | 1,388,022 | 1,201,467 |
| Other assets | <u>1,553</u> | <u>1,334</u> | <u>1,254</u> |
| Total assets | 2,338,653 | 2,010,230 | 1,833,225 |
| Deferred outflows of resources | <u>60,007</u> | <u>27,202</u> | <u>25,783</u> |
| Total assets and deferred outflows of resources | <u><u>\$ 2,398,660</u></u> | <u><u>\$ 2,037,432</u></u> | <u><u>\$ 1,859,008</u></u> |
| Liabilities | | | |
| Current liabilities | \$ 112,466 | \$ 81,042 | \$ 49,485 |
| Long-term obligations | <u>1,537,475</u> | <u>1,094,469</u> | <u>990,334</u> |
| Total liabilities | <u>1,649,941</u> | <u>1,175,511</u> | <u>1,039,819</u> |
| Deferred inflows of resources | <u>4,757</u> | <u>5,420</u> | <u>4,777</u> |
| Net position | | | |
| Net investment in capital assets | 548,444 | 712,008 | 611,645 |
| Restricted for debt service | 36,173 | 34,161 | 7,344 |
| Unrestricted | <u>159,345</u> | <u>110,332</u> | <u>195,423</u> |
| Total net position | <u>743,962</u> | <u>856,501</u> | <u>814,412</u> |
| Total liabilities, deferred inflows of resources and net position | <u><u>\$ 2,398,660</u></u> | <u><u>\$ 2,037,432</u></u> | <u><u>\$ 1,859,008</u></u> |

Total assets and deferred outflows of resources increased 17.8% or \$362 million from \$2,037 million to \$2,399 million during 2020. The main drivers behind the increase are the Authority's investment in capital infrastructure, as net capital assets grew from \$1.39 billion in fiscal year 2019 to \$1.60 billion in fiscal year 2020. Investments in capital assets were made to improve infrastructure and equipment at existing facilities, as well as, to construct Phase 1 of the new Hugh K. Leatherman Terminal. The Authority also experienced an increase in deferred outflows of resources directly related to the Series 2019C and 2019D bond refunding's, which replaced portions of the Series 2015 bonds at lower borrowing costs.

Deferred Outflows of Resources increased approximately \$32.8 million during the year which was primarily attributed to recognizing the economic loss associated with the Series 2019C and 2019D bond refunding's. Additionally, the Ports Authority recognized their allocated share of difference between actual and expected pension experience, the net difference between projected and actual investment earnings, assumption changes, changes in proportionate share and the Ports Authority's actual pension plan contributions made during 2020 that were paid subsequent to both plans' measurement date of June 30, 2019. The increase also reflects the difference between actual and expected benefit experience, the net difference between projected and actual investment earnings, and assumption changes for other post-employment benefits.

Total liabilities increased 40.4% or \$474 million from \$1,176 million to \$1,650 million during 2020. The main driver of this change was the addition of senior debt during fiscal year 2020 for the construction of the Port Access Road and Phase 1 of the Hugh K. Leatherman Terminal.

South Carolina State Ports Authority

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

The Ports Authority's deferred inflows of resources increased to \$854 thousand in fiscal year 2020, representing the allocated share of the difference between actual and expected pension experience and changes in proportionate share during the year and deferred inflows of resources decreased to \$3.9 million for post-employment benefits related to differences between actual and expected experience, assumption changes, service costs, and benefit payments.

Total assets and deferred outflows of resources increased 9.6% or \$178 million from \$1,859 million to \$2,037 million during fiscal year 2019. The main driver behind the increase was the Authority's investment in capital infrastructure, as net capital assets grew from \$1.20 billion in fiscal year 2018 to \$1.39 billion in fiscal year 2019. Investments were made to improve infrastructure and equipment at existing facilities, as well as, to construct Phase 1 of the new Hugh K. Leatherman Terminal.

Deferred Outflows of Resources increased approximately \$1.42 million during fiscal year 2019 to recognize the Ports Authority's allocated share of difference between actual and expected pension experience, the net difference between projected and actual investment earnings, assumption changes, changes in proportionate share and the Ports Authority's actual pension plan contributions made during fiscal year 2019 that were paid subsequent to both plans' measurement date of June 30, 2018. The increase also reflects the difference between actual and expected benefit experience, the net difference between projected and actual investment earnings, and assumption changes for other post-employment benefits.

Total liabilities increased 13.0% or \$136.0 million from \$1,040 million to \$1,176 million during 2019. The main driver of this change was the addition of subordinate debt during fiscal year 2019 for the purchase of additional equipment at the Wando Welch Terminal and to aid in the 52-foot harbor deepening project. The increase was also driven by increases in the Authority's net pension liability (\$7.1 million) and post-employment benefits liability (\$1.6 million) in fiscal year 2019, both of which were actuarially driven.

The Ports Authority also recognized \$625 thousand of deferred inflows of resources for the allocated share of the difference between actual and expected pension experience and changes in proportionate share during fiscal year 2019 and \$4.8 million for post-employment benefits related to differences between actual and expected experience, assumption changes, service costs, and benefits payments.

The largest portion of the Ports Authority's net position each year (73.7%, 83.1% and 75.1% at June 30, 2020, 2019 and 2018, respectively) represents its investment in capital assets (e.g., land, buildings, improvements, and equipment), less the related debt outstanding used to acquire those capital assets. The Ports Authority uses these capital assets to provide services to major steamship lines and their agents for movement of maritime cargo; consequently, these assets are not available for future spending. Although the Ports Authority's investment in capital assets reported is shown net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves generally are not sold to liquidate liabilities.

An additional portion of the Ports Authority's net position (4.9%, 4.0% and 0.9% at June 30, 2020, 2019 and 2018, respectively) represents resources that are subject to external restrictions. The remaining unrestricted net position (21.4%, 12.9% and 24.0% at June 30, 2020, 2019 and 2018, respectively) may be used to meet any of the Ports Authority's ongoing obligations.

South Carolina State Ports Authority

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

Statements of Revenues, Expenses and Changes in Net Position

A condensed comparative summary of the Ports Authority's revenues, expenses and changes in net position for the years ended June 30 is shown below:

| <i>(in thousands of dollars)</i> | 2020 | 2019 | 2018 |
|--|-------------------|-------------------|-------------------|
| Operating income | \$ 292,256 | \$ 294,326 | \$ 252,013 |
| Operating expenses | <u>264,841</u> | <u>252,083</u> | <u>216,247</u> |
| Operating earnings | 27,415 | 42,243 | 35,766 |
| (Loss) gain on sale of property and equipment, net | (5,391) | (4,253) | 8,832 |
| Other nonoperating income (expense), net | (11,770) | 25,534 | (5,602) |
| Contribution to State of South Carolina | (1,000) | (1,000) | (1,000) |
| Contribution to Department of Transportation | (100,000) | (23,000) | (12,600) |
| Contribution to CSX | - | - | (709) |
| Contribution to Army Corps of Engineers | (33,294) | (3,933) | (299,043) |
| Contribution from Army Corps of Engineers | - | - | 275 |
| Capital grants from the federal government | 164 | 2,004 | 762 |
| Contribution from State of South Carolina | <u>11,337</u> | <u>4,494</u> | <u>299,318</u> |
| Change in net position | (112,539) | 42,089 | 25,999 |
| Net position, beginning | 856,501 | 814,412 | 830,088 |
| Adoption of GASB 75 | - | - | (41,675) |
| Net position, ending | <u>\$ 743,962</u> | <u>\$ 856,501</u> | <u>\$ 814,412</u> |

Operating revenues decreased 0.7% from \$294.3 million to \$292.3 million during fiscal year 2020. This decrease is primarily attributed to the insurance claim settlement of \$6.0 million recorded in fiscal year 2019 operating revenues. While COVID-19 had an adverse impact on pier container volumes, automobiles, and cruise passengers in the fourth quarter of fiscal year 2020, the Authority still achieved operating revenue increases in the container business segment (2.1%) and the cruise business segment (2.0%), only experiencing a decline (5.0%) in the breakbulk and ro-ro business segment.

Operating revenues increased 16.8% from \$252.0 million to \$294.3 million during fiscal year 2019. This increase was primarily attributed to increased volumes of containerized cargo, continued success of our inland port facility in Greer and the first full year of operations at our inland port facility in Dillon. During fiscal year 2019, container volumes increased approximately 9.0%.

A gain related to settlement of an insurance claim was recorded in fiscal year 2019 in the amount of \$6.0 million. This was due to settlement of a prior year insurance claim at Veterans Terminal. This gain was included in operating earnings in the Statements of Revenue, Expenses and Changes in Net Position.

The following table breaks down operating revenues by business segment for each fiscal year ended June 30:

| <i>(in thousands)</i> | 2020 | 2019 | 2018 |
|---------------------------|-------------------|-------------------|-------------------|
| Operating revenues | | | |
| Container | \$ 234,369 | \$ 231,828 | \$ 198,503 |
| Breakbulk & RoRo Cargo | 20,992 | 22,091 | 24,655 |
| Inland Ports | 24,155 | 21,482 | 14,880 |
| Cruise | 10,604 | 10,397 | 11,203 |
| All other | <u>2,136</u> | <u>8,528</u> | <u>2,772</u> |
| Total operating revenues | <u>\$ 292,256</u> | <u>\$ 294,326</u> | <u>\$ 252,013</u> |

South Carolina State Ports Authority
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

The following table breaks down operating expenses for each fiscal year ended June 30:

| <i>(in thousands)</i> | 2020 | 2019 | 2018 |
|---------------------------|-------------------|-------------------|-------------------|
| Operating expenses | | | |
| Direct operating expenses | \$ 167,412 | \$ 162,364 | \$ 137,861 |
| Administrative expense | 42,370 | 42,166 | 36,863 |
| Depreciation expense | 55,059 | 47,553 | 41,523 |
| Total operating expenses | <u>\$ 264,841</u> | <u>\$ 252,083</u> | <u>\$ 216,247</u> |

Direct operating expenses for fiscal year 2020 increased by 3.1% from \$162.4 million in fiscal year 2019 to \$167.4 million in fiscal year 2020. The increase is primarily a result of increased personnel and gate costs associated with increased operating hours during fiscal year 2020.

Administrative expenses increased slightly in fiscal year 2020 with an increase of 0.5% from \$42.2 million in fiscal year 2019 to \$42.4 million in fiscal year 2020. Main drivers include increased information technology and pension related costs during fiscal year 2020.

Depreciation expense increased 15.8% in fiscal year 2020 as the Authority continued to place capital assets into service as part of infrastructure and terminal upgrades.

Direct operating expenses for fiscal year 2019 increased by 17.8% from \$137.9 million in fiscal year 2018 to \$162.4 million in fiscal year 2019. The increases are primarily a result of personnel costs and increased expenses associated with volume gains. Personnel costs continued to increase during fiscal year 2019 as the Authority brought on additional staffing at increased wages to handle record volumes. Additionally, the Authority saw an increase in repairs and maintenance expense from wear and tear on equipment from increased usage and incurred expenses related to Inland Port Dillon which completed its first full year of operations in fiscal year 2019.

Administrative expenses increased in fiscal year 2019 with an increase of 14.4% from \$36.9 million in fiscal year 2018 to \$42.2 million in fiscal year 2019. Main drivers include increased information technology and professional services costs during fiscal year 2019.

Depreciation and amortization expense increased 14.5% in fiscal year 2019 as the Authority continued to place capital assets into service as part of infrastructure and terminal upgrades.

Nonoperating income decreased from \$21.3 million of income in fiscal year 2019 to \$17.2 million of expense in fiscal year 2020. In fiscal year 2020, the Ports Authority adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. With the adoption of this Statement, interest expense is no longer capitalized and is now included in interest expense in the Statement of Revenues, Expenses and Changes in Net Position. As a result, \$47 million of interest expense is included in nonoperating expense in fiscal year 2020 that was not included in fiscal year 2019 and is offset by interest income earned during the current fiscal year.

Nonoperating income increased from \$10.3 million of expense in fiscal year 2018 to \$21.3 million of income in fiscal year 2019. In fiscal year 2019, the Authority recognized a gain related to the assumption of property from the Charleston Naval Complex Redevelopment Authority, which was offset by a conveyance of property acquired for the construction of Inland Port Greer back to the City of Greer.

The Ports Authority made contributions to the State of South Carolina for the Cooper River Bridge during the years ended June 30, 2020, 2019 and 2018, as more fully described in Note 12 – Other Matters. During the years ended June 30, 2020, 2019 and 2018, the Ports Authority contributed \$100.0 million, \$23.0 million, and \$12.6 million to the Department of Transportation and \$0, \$0, and \$709 thousand to CSX for

South Carolina State Ports Authority

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

infrastructure improvements. The Authority also contributed \$33.3 million, \$3.9 million, and \$299 million to the Army Corps of Engineers for the 52-foot harbor deepening project. Portions of these funds were reimbursed to the Authority from the State of South Carolina. These payments have been treated as nonoperating contributions to the state and county governments in South Carolina and therefore have reduced the Ports Authority's net position. These contributions are not treated as a capital asset of the Ports Authority and future payments are not recorded as a liability.

During the years ended June 30, 2020, 2019 and 2018, the Ports Authority earned approximately \$164 thousand, \$2.0 million and \$762 thousand, respectively, in federal grant money to be used for security related projects to enhance facilities, storm recovery and wharf repairs and improvements at the Wando Welch Terminal. Additionally, for the years ended June 30, 2020, 2019 and 2018, \$400 thousand, \$600 thousand, and \$275 thousand, respectively, was received from the State of South Carolina as reimbursement for bi-state development of the Jasper Ocean Terminal.

Statements of Cash Flows

A condensed comparative summary of the statements of cash flows for the years ended June 30 is shown below:

| <i>(in thousands of dollars)</i> | 2020 | 2019 | 2018 |
|---|-------------------|-------------------|-------------------|
| Cash flow from operating activities | \$ 88,680 | \$ 90,481 | \$ 80,896 |
| Cash flow from investing activities | 49,872 | 8,029 | 21,217 |
| Cash flow (used in) noncapital financing activities | (122,793) | (11,069) | (25,811) |
| Cash flow from (used in) | | | |
| capital and related financing activities | 116,297 | (100,891) | 60,116 |
| Change in cash and cash equivalents | 132,056 | (13,450) | 136,418 |
| Cash and cash equivalents | | | |
| Beginning of year | 538,518 | 551,968 | 415,550 |
| End of year | <u>\$ 670,574</u> | <u>\$ 538,518</u> | <u>\$ 551,968</u> |

The Ports Authority's available cash and cash equivalents increased from \$538.5 million in fiscal year 2019 to \$670.6 million in fiscal year 2020. Cash flows from operating activities decreased from \$90.5 million in fiscal year 2019 to \$88.7 million in fiscal year 2020. The major drivers of this variance were decreases in container volumes from record levels, offset with moderate rate adjustments which lead to a \$3.9 million increase in operating revenues from fiscal year 2019 to fiscal year 2020 when you exclude the \$6 million insurance settlement from fiscal year 2019. Direct operating expense increased during the same time period. Additionally, the net pension liability increased \$12.6 million during fiscal year 2020, increasing cash flow from operating activities by the same amount. Cash flows from investing activities increased from \$8.0 million in 2019 to \$49.9 million in 2020. This increase is principally attributed to an increase in investments sold during fiscal year 2020, an increase in unrealized gains associated with funds held in the State Treasurer pool, and an increase in interest income. Net cash used in noncapital financing activities increased from \$(11.1) million in 2019 to \$(122.8) million in 2020. This is related to increases in contributions provided to the Department of Transportation for infrastructure improvements along with the Army Corps of Engineers for the 52-foot harbor deepening project. These infrastructure improvements are not the assets of the Authority.

Net cash from capital and related financing activities increased from \$(100.9) million in 2019 to \$116.3 million in 2020. This increase was directly related to the Series 2019 (A,B,C,D) bond issuances occurring during fiscal year 2020 which was partially offset by capital spend and the servicing of current debt obligations.

South Carolina State Ports Authority

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

The Ports Authority's available cash and cash equivalents decreased from \$552.0 million in fiscal year 2018 to \$538.5 million in fiscal year 2019. Cash flows from operating activities increased from \$80.9 million in fiscal year 2018 to \$90.5 million in fiscal year 2019. The major drivers of this increase are growth in container volumes along with moderate rate adjustments leading to a \$42.3 million increase in operating revenues from fiscal year 2018 to fiscal year 2019 offset by a \$29.8 million increase in direct and administrative expense during the same time period. Additionally, the net pension liability increased \$7.1 million during fiscal year 2019, increasing cash flow from operating activities by the same amount. Cash flows from investing activities decreased from \$21.2 million in 2018 to \$8.0 million in 2019. This decrease is principally attributed to an increase in investments purchased during fiscal year 2019.

Net cash from noncapital financing activities increased from \$(25.8) million in 2018 to \$(11.1) million in 2019. This is related to an increase in contributions provided to the Department of Transportation for infrastructure improvements along with a decrease in contributions made to the Army Corps of Engineers for the 52-foot harbor deepening project. These infrastructure improvements are not the assets of the Authority.

Capital Assets and Debt Administration

The Ports Authority's investment in capital assets was \$1.6 billion as of June 30, 2020, representing a 15.3% increase over June 30, 2019, and a 33.1% increase over 2018. The investments include land, land improvements, buildings, terminal equipment and projects in progress.

Major capital investments and other significant expenditures over the past two fiscal years include the following:

- Hugh K. Leatherman Terminal – Phase 1 (In Progress)
- Purchase and upgrade Ship-to-Shore Container Cranes
- Purchase and Upgrades of Rubber-Tired-Gantry Cranes and other Material Handling Equipment
- Traffic flow improvements at the Wando Welch Terminal
- Construction of new chassis yards at Wando Welch, Inland Port Greer and North Charleston Terminals
- Implementation of new Terminal Operating System – Tideworks (In Progress)
- Construction of new main office facility

Additional information on the capital assets and projects of the Authority can be found in Note 3 and Note 6 to the financial statements.

Debt Administration

The administration of our debt and borrowing capacity is essential to achieving the current capital and growth plan of the Authority. The Ports Authority issued revenue bonds in 2010 (\$170 million), 2015 (\$294 million), 2018 (\$325 million), and 2019 (\$657 million). The 2010 revenue bonds were legally defeased in fiscal year 2018 and portions of the 2015 revenue bonds were defeased in fiscal year 2020 with the Series' 2019C (\$125 million) and 2019D (\$152 million). Total revenue bonds outstanding were \$1.03 billion and \$619 million as of June 30, 2020, and 2019, respectively. Additionally, the Authority has promissory notes outstanding with various third parties totaling \$265.2 million and \$272.0 million as of June 30, 2020 and 2019, respectively. Additional information on the Ports Authority's long-term debt can be found in Note 5 to the financial statements.

South Carolina State Ports Authority
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

Credit Rating

The Ports Authority's Senior Revenue Bonds, Series 2019A, Series 2019B, Series 2019C, Series 2019D, Series 2018 and Series 2015, are rated by Moody's and Standard and Poor's, A1 and A+, respectively.

Contacting the Ports Authority's Financial Management

If you have questions about this report or need additional financial information, contact the Ports Authority's Chief Financial Officer, 200 Ports Authority Drive, Mount Pleasant, SC 29464 USA.

South Carolina State Ports Authority
Statements of Net Position
Years Ended June 30, 2020 and 2019

| <i>(in thousands of dollars)</i> | 2020 | 2019 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents, unrestricted | \$ 250,973 | \$ 213,508 |
| Cash and cash equivalents, restricted | 367,868 | 169,781 |
| Cash and cash equivalents held by trustee for debt service | 28,478 | 21,712 |
| Investments, unrestricted | 5,568 | 5,375 |
| Investments, restricted | 17,687 | 132,350 |
| Accounts interest receivable | 3,294 | 4,056 |
| Accounts receivable trade, net of allowance for doubtful accounts of \$417 in 2020 and \$1,700 in 2019 | 38,803 | 41,330 |
| Other receivables | 6,071 | 6,718 |
| Inventories, net | 9,794 | 9,634 |
| Prepaid and other current assets | 5,901 | 6,809 |
| Interest rate exchange agreements | - | 973 |
| Total current assets | <u>734,437</u> | <u>612,246</u> |
| Noncurrent assets | | |
| Cash and investments held by trustee for debt service | 3,039 | 8,628 |
| Capital assets, net | 1,599,623 | 1,388,022 |
| Other receivables | 1,554 | 1,334 |
| Total noncurrent assets | <u>1,604,216</u> | <u>1,397,984</u> |
| Total assets | <u>2,338,653</u> | <u>2,010,230</u> |
| Deferred outflows of resources | | |
| Defined benefit plans | 25,310 | 22,880 |
| Post-employment benefit plans | 6,399 | 2,570 |
| Goodwill | 1,533 | 1,752 |
| Deferred loss on refunding bonds | 26,765 | - |
| Total deferred outflows of resources | <u>60,007</u> | <u>27,202</u> |
| Total assets and deferred outflows of resources | <u>\$ 2,398,660</u> | <u>\$ 2,037,432</u> |
| Liabilities | | |
| Current liabilities | | |
| Current maturities of long-term debt | \$ 15,625 | \$ 14,473 |
| Accounts payable | 9,467 | 14,727 |
| Accounts payable, construction | 51,714 | 21,762 |
| Retainage payable | 6,291 | 4,501 |
| Accrued interest | 23,067 | 16,625 |
| Accrued payroll | 6,182 | 7,564 |
| Interest rate exchange agreements | - | 1,274 |
| Harbor deepening obligation, current portion | 120 | 116 |
| Total current liabilities | <u>112,466</u> | <u>81,042</u> |
| Noncurrent liabilities | | |
| Post-employment benefit obligation | 60,817 | 54,530 |
| Net pension liability | 118,329 | 105,681 |
| Harbor deepening obligation, long-term | 3,762 | 3,881 |
| Long-term debt, net of current maturities | 1,354,567 | 930,377 |
| Total noncurrent liabilities | <u>1,537,475</u> | <u>1,094,469</u> |
| Total liabilities | <u>1,649,941</u> | <u>1,175,511</u> |
| Deferred inflows of resources | | |
| Defined benefit plans | 854 | 625 |
| Post-employment benefit plans | 3,903 | 4,795 |
| Total deferred inflows of resources | <u>4,757</u> | <u>5,420</u> |
| Net position | | |
| Net investment in capital assets, net of related debt | 548,444 | 712,008 |
| Restricted | | |
| For debt service | 36,173 | 34,161 |
| Unrestricted | 159,345 | 110,332 |
| Total net position | <u>743,962</u> | <u>856,501</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 2,398,660</u> | <u>\$ 2,037,432</u> |

South Carolina State Ports Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2020 and 2019

(in thousands of dollars)

| | 2020 | 2019 |
|--|------------|------------|
| Operating revenues | \$ 292,256 | \$ 294,326 |
| Operating expenses | | |
| Direct operating | 167,412 | 162,364 |
| Administrative | 42,370 | 42,166 |
| Depreciation and amortization | 55,059 | 47,553 |
| Total operating expenses | 264,841 | 252,083 |
| Operating income | 27,415 | 42,243 |
| Nonoperating (expenses) revenues | | |
| Interest income | 11,943 | 11,088 |
| Other (expense) income, net | (6,485) | 22,463 |
| Loss on sale of property and equipment, net | (5,391) | (4,253) |
| Interest expense | (45,411) | (8,679) |
| Unrealized gain on interest rate exchange agreements | - | 250 |
| Unrealized gain on investments, net | 28,183 | 412 |
| Contribution to the State of SC for Cooper River Bridge | (1,000) | (1,000) |
| Contribution to Department of Transportation for infrastructure improvements | (100,000) | (23,000) |
| Contribution to Army Corps of Engineers for Harbor Deepening | (33,294) | (3,933) |
| Contribution from the State of SC for Harbor Deepening | 6,037 | 3,894 |
| Contribution from the State of SC for Jasper Ocean Terminal | 5,300 | 600 |
| Total nonoperating (expenses) revenues | (140,118) | (2,158) |
| Excess revenues over (under) expenses before capital grants | (112,703) | 40,085 |
| Capital grants from the federal government | 164 | 2,004 |
| Increase (decrease) in net position | (112,539) | 42,089 |
| Total net position | | |
| Beginning of year | 856,501 | 814,412 |
| End of year | \$ 743,962 | \$ 856,501 |

South Carolina State Ports Authority
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

(in thousands of dollars)

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Cash flows from operating activities | | |
| Cash received from customers | \$ 294,783 | \$ 291,545 |
| Cash paid to suppliers | (108,261) | (115,607) |
| Cash paid for employees | (97,842) | (85,457) |
| Net cash provided by operating activities | <u>88,680</u> | <u>90,481</u> |
| Cash flows from investing activities | | |
| Proceeds from sale of investments | 10,263 | 4,363 |
| Purchases of investments | (392) | (4,346) |
| Interest on investments | 40,401 | 8,512 |
| Payment to support bi-port development | (400) | (500) |
| Net cash provided by investing activities | <u>49,872</u> | <u>8,029</u> |
| Cash flows from noncapital financing activities | | |
| Contribution to the State of SC for Cooper River Bridge | (1,000) | (1,000) |
| Contribution to Department of Transportation for infrastructure improvements | (100,000) | (23,000) |
| Contribution to Army Corps of Engineers for harbor deepening | (33,294) | (3,933) |
| Contribution from the State of SC for harbor deepening | 6,037 | 14,260 |
| Contribution from federal government | 164 | 2,004 |
| Contribution from the State of SC for Jasper Ocean Terminal | 5,300 | 600 |
| Net cash used in noncapital financing activities | <u>(122,793)</u> | <u>(11,069)</u> |
| Cash flows from capital and related financing activities | | |
| Acquisition and construction of capital assets | (228,675) | (180,536) |
| Cash received from insurance proceeds | 6,000 | - |
| Proceeds from sale of capital assets | 4,299 | 959 |
| Cash paid for bond issuance costs | (3,022) | (65) |
| Proceeds from revenue bonds | 698,379 | - |
| Principal paid on revenue bonds | (312,990) | - |
| Proceeds from notes payable | 82,933 | 110,000 |
| Principal paid on harbor deepening | (116) | (113) |
| Principal paid on other debt | (89,554) | (3,678) |
| Interest paid on revenue bonds | (30,004) | (23,742) |
| Interest paid on harbor deepening | (1,171) | (123) |
| Interest paid on bond defeasance | (2,707) | - |
| Interest paid on other debt | (7,075) | (4,909) |
| Capital grants | - | 1,316 |
| Cash flows provided by (used in) capital and related financing activities | <u>116,297</u> | <u>(100,891)</u> |
| Net increase (decrease) in cash and cash equivalents | <u>132,056</u> | <u>(13,450)</u> |
| Cash and cash equivalents | | |
| Beginning of year | <u>538,518</u> | <u>551,968</u> |
| End of year | <u>\$ 670,574</u> | <u>\$ 538,518</u> |
| Reconciliation of cash and cash equivalents to financial statements | | |
| Cash and cash equivalents | \$ 647,319 | \$ 400,793 |
| Current investments | 23,255 | 137,725 |
| Total cash and cash equivalents | <u>\$ 670,574</u> | <u>\$ 538,518</u> |

South Carolina State Ports Authority
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

(in thousands of dollars)

| | 2020 | 2019 |
|--|------------------|------------------|
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating income | \$ 27,415 | \$ 42,243 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation | 54,814 | 47,300 |
| Provision for doubtful accounts | (1,277) | 128 |
| Other expense, net | (2,610) | (1,191) |
| Amortization | 245 | 253 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 3,998 | (9,144) |
| Inventories | (160) | (1,077) |
| Prepaid and other current assets | 885 | (1,941) |
| Accounts payable and other liabilities | (5,260) | 5,726 |
| Payroll related liabilities | (1,382) | 454 |
| Post-employment benefit obligation | 1,566 | 990 |
| Net pension liability | 10,446 | 6,740 |
| Net cash provided by operating activities | <u>\$ 88,680</u> | <u>\$ 90,481</u> |

Noncash Investing, Capital and Financing Activities

The following are noncash investing, capital and financing activities as of and for the year ended June 30:

(in thousands of dollars)

| | 2020 | 2019 |
|--|-----------|-----------|
| Capital assets included in accounts payable | \$ 61,886 | \$ 30,259 |
| Unrealized gain on interest rate exchange agreements | 301 | 250 |
| Unrealized gain on investments | 28,183 | 412 |
| Harbor deepening reimbursement included in other receivables | 6,037 | - |
| Contributions in other receivables | 441 | 1,052 |
| Land swap | 5,564 | 19,440 |
| Interest income included in interest receivable | 2,500 | 3,217 |

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

The South Carolina State Ports Authority ("Ports Authority") was created in 1942 by Act Number 626 of the South Carolina General Assembly for the general purposes of developing and improving the harbors and seaports of Charleston, Georgetown and Beaufort for the handling of waterborne commerce and to foster and stimulate the shipment of freight and commerce through these ports. The Ports Authority owns and is responsible for the operation of six ocean terminals at the ports of Charleston and Georgetown, as well as inland port facilities in Greer and Dillon. These facilities handle import and export containerized, breakbulk and bulk cargoes.

The Ports Authority operates as a self-supporting governmental enterprise and uses the accrual basis of accounting applicable to governmental enterprise funds. The Ports Authority has no stockholders or equity holders and is directed by a governing board whose members are appointed by the Governor of South Carolina for five-year terms. In addition to the nine voting members of the Board of Directors appointed by the Governor, there are two nonvoting board members including the Secretary of Transportation and the Secretary of Commerce. The Ports Authority's financial statements are included in the State of South Carolina general purpose financial statements as a discretely presented component unit.

All activities of the Ports Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The transactions of the Ports Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included in the Statements of Net Position. Net position is segregated into net investment in capital assets; restricted; and unrestricted components. These classifications are defined as follows:

- *Net investment in capital assets* – Consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of investment in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position components as the unspent proceeds.
- *Restricted* – Consists of external constraints placed on net position use by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* – Consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

New Accounting Pronouncements

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The requirement of this Statement will improve financial reporting by establishing the definitions of Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs) and providing uniform guidance on transactions that meet those definitions. The required disclosures will allow users to understand the scale and important aspects of a government's PPPs and evaluate future obligations and assets resulting from PPPs. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The Ports Authority is currently evaluating the impact that this Statement will have on its financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments in light of the COVID-19 pandemic, effective immediately. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides for the following pronouncements:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 87, *Leases*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*

The Ports Authority has adopted Statement No. 95 in the fiscal year ended June 30, 2020. The Ports Authority adopted Statement No. 88 during fiscal year ended June 30, 2019. The adoption of Statement No. 95 had no effect on the Ports Authority's financial statements, with exception of the implementation of Statement No. 89 as noted below. The Ports Authority is currently evaluating the impact the adoption of the remaining pronouncements will have on its financial statements.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* was effective for reporting periods beginning after December 15, 2019 and should be applied prospectively. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The Ports Authority adopted this Statement in fiscal year ended June 30, 2020.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement (1) defines a subscription-based information technology arrangement (SBITA); (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The Ports Authority is currently evaluating the impact that this Statement will have on its financial statements.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Other accounting standards that have been issued or proposed by the GASB or other standards-setting bodies are not expected to have a material impact on the Port Authority's financial position, changes in net position, or cash flows.

Cash and Investments

The Ports Authority maintains cash and investments for operations, debt service and capital improvements. Funds are deposited at financial institutions or invested in funds maintained by the State Treasurer. Cash and investments used for operations are included on the Statements of Net Position as "cash and cash equivalents" and "investments." If an external restriction exists as to the use of the funds it is included on the Statements of Net Position as "restricted cash" or "restricted investments." Investments maintained in accordance with revenue bond debt service requirements are included on the Statements of Net Position as "held by trustee for debt service." Amounts invested with the State Treasurer are part of an internal investment pool. The pool operates as a demand deposit account and amounts invested in the pool are classified as cash and cash equivalents for purposes of the statement of cash flows. Other highly liquid investments with a maturity of three-months or less are considered cash and cash equivalents for purposes of the statements of cash flows.

Credit Risk, Custodial Credit Risk, and Interest Rate Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Ports Authority. The investments held by a trustee include U.S. government agency securities, which receive credit ratings from organizations such as Moody's Investors Service and Standard & Poor's. These rating agencies assign ratings to the securities by assessing the likelihood of issuer default; however, government obligations typically are not considered as having significant credit risk. The funds held by trustee received credit ratings from Moody's Investors Service of Aaa and Standard & Poor's of AAA and AA+ as of June 30, 2020 and 2019, respectively. Investments held with third party banks include money market funds, U.S. Government securities, and interest-bearing accounts with credit ratings from Moody's of Aaa and Standard & Poor's of AAA and AA+ as of June 30, 2020 and 2019, respectively. The money invested with the State Treasurer in the cash management pool is not rated by an outside agency; however, it is the policy of the State to invest in only the highest investment grade securities including those rated at least A by the two leading national rating services. State law requires full collateralization of all State Treasurer bank balances, and all the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, credit risk, interest rate risk, and concentration risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Ports Authority will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. Investments held with third party banks are invested primarily in money market funds, US Government securities, and interest-bearing accounts, which totaled approximately \$23,256,000 and \$138,113,000 as of June 30, 2020 and 2019, respectively. Investments held by a trustee are invested in government agency securities, which totaled approximately \$31,518,000 and \$34,160,000 as of June 30, 2020 and 2019, respectively. Investments held with third party banks and investments held by a trustee are fully collateralized as of June 30, 2020 and 2019 with securities maintained by an outside party.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Concentration of credit risk is the risk of loss attributed to the magnitude of the Ports Authority's investments in a single issuer. The Ports Authority holds investments issued by or explicitly guaranteed by the U.S. Government, investments in mutual funds and investments in the State Treasurer's investment pool, which are exempt from concentration of credit risk disclosure requirements.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Ports Authority minimizes its interest rate risk by investing in primarily short-term securities. Interest rate risk associated with the investments at the State Treasurer, are managed by asset allocation policies and by additional constraints controlling risk exposure.

Investments and their relative maturities are as follows at June 30:

(in thousands of dollars)

| Investment Type | Maturity | Value | |
|-----------------------------------|------------------------|-----------|-----------|
| | | 2020 | 2019 |
| Money market funds | Less than three months | \$ 49,140 | \$ 67,840 |
| Mutual funds | Less than one year | 4,655 | 3,162 |
| U.S. government agency securities | Less than one year | 14,582 | 117,682 |
| U.S. government agency securities | One to five years | 7,019 | 25,510 |

Investments in the state investment pool include obligations of the U.S. and certain agencies of the U.S., obligations of domestic corporations, certificates of deposit and collateralized repurchase agreements. The maturity dates of these investments range from less than one year to thirty years.

Inventories

Inventories consist principally of maintenance parts and supplies and are recorded at cost. Inventory is evaluated for obsolescence on an annual basis and adjusted accordingly.

Capital Assets

Capital assets constructed or purchased are stated at cost. Contributed capital assets are recorded at estimated acquisition value on the date received. GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* was adopted in fiscal year 2020 and interest is expensed in the period incurred. Prior to the adoption of Statement No. 89, interest was capitalized on major long-term construction projects and depreciated over the useful life of the related asset.

Depreciation is computed using the straight-line method over the following estimated useful lives:

| | |
|--------------------------|----------------|
| Land improvements | 5 to 50 years |
| Buildings and structures | 5 to 50 years |
| Railroad tracks | 20 to 25 years |
| Terminal equipment | 5 to 25 years |
| Furniture and fixtures | 5 to 20 years |

Goodwill

Goodwill is accounted for under GASB 85, *Omnibus* and GASB 69, *Government Combinations and Disposals of Government Operations* and is reported as a deferred outflow of resources in the Statements of Net Position. Deferred outflows of resources related to goodwill are attributed to future periods in a systematic and rational manner, based on the professional judgment of the Ports Authority. These outflows of resources are amortized over a period of ten years. The Ports Authority

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

will periodically review and revise its estimate of the attribution period in reporting periods subsequent to the acquisition.

Derivative Instruments and Hedging Activities

The Ports Authority entered into interest rate swap agreements with banks to fix the rate of interest on long term debt. Interest rate swaps are considered derivatives and are carried on the Statements of Net Position at fair value. The Ports Authority does not enter into financial instruments for trading or speculative purposes. Changes in the fair value of the interest rate swap agreements are presented in the Statements of Revenues, Expenses, and Changes in Net Position.

Operating Revenues and Expenses

The Statements of Revenues, Expenses and Changes in Net Position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing commerce through the Ports Authority. Revenue from exchange transactions is recognized at the time the transaction is completed. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to support commerce, other than financing costs.

Contributions

From time to time, the Ports Authority receives contributions from the State of South Carolina or the federal government. Revenues from contributions are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources

When the Ports Authority has both restricted and unrestricted resources available to finance a particular program, it is the Ports Authority's policy to use restricted resources before unrestricted resources.

Premiums on Long-Term Debt

Premiums on long-term debt are amortized as a component of interest expense over the term of the related debt obligations using the effective interest method.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources are the consumption of net position applicable to future reporting periods. The Ports Authority's deferred outflows of resources consist of (i) deferred loss on debt refunding – the defeasance of previously outstanding revenue bonds resulting in deferred refunding losses. These deferred losses are recognized as a component of interest expense over the remaining life of the old or new debt, whichever is shorter; (ii) net pension and net OPEB liabilities – decreases in net pension and net OPEB liabilities that are not included in expense. Also, employer contributions related to pension and OPEB that are made subsequent to the measurement date are reported as deferred outflows of resources. Deferred inflows of resources are the acquisition of net position that is applicable to future reporting periods. The Ports Authority's deferred inflows of resources consist of increases in net pension and net OPEB liabilities not included in expense.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Risk Management

The Ports Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; injuries to employees and natural disasters. The Ports Authority has obtained commercial insurance to cover the risk of these losses, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage.

Concentration of Credit Risk

The Ports Authority provides services and facilities usage for companies located throughout the world. During the years ended June 30, 2020 and 2019, three customers accounted for the following revenue and accounts receivable percentages:

| | 2020 | | 2019 | |
|------------|------------|---------------------|------------|---------------------|
| | Revenue | Accounts Receivable | Revenue | Accounts Receivable |
| Customer 1 | 18% | 17% | 19% | 17% |
| Customer 2 | 12 | 12 | 12 | 9 |
| Customer 3 | 11 | 15 | 12 | 18 |
| | <u>41%</u> | <u>44%</u> | <u>43%</u> | <u>44%</u> |

The Ports Authority generally provides credit to its customers. The Ports Authority performs ongoing credit evaluations of its customers and generally operates under international laws, which may provide for a maritime lien on vessels in the event of default on credit terms. The Ports Authority maintains reserves for potential credit losses.

Annual Leave Policy

Employees earn vacation at rates of 12 to 25 days per year and may accumulate up to a maximum of 5 days, depending on their length of employment and type of employment contract. All employees could carry their leave balance into the new policy as their respective maximum. Upon termination, employees are paid for any unused accumulated vacation, up to their respective maximum. The liability for annual leave is accrued at the lower of its accumulated value or respective maximum in the accompanying financial statements. The liability is approximately \$2,038,000 and \$1,986,000 as of June 30, 2020 and 2019, respectively, and is included in accrued employee compensation and payroll, related withholdings and liabilities in the Statements of Net Position.

Unemployment Compensation

The Ports Authority is liable under the South Carolina Employment Security Law for unemployment compensation to its employees. The Ports Authority has elected to reimburse the Department of Employment and Workforce (Department) for benefits paid by the Department in connection with claims. The Ports Authority records a liability for estimated future unemployment compensation claims.

Related Party Transactions

The Ports Authority conducts certain business transactions with the State of South Carolina and other entities affiliated with the State of South Carolina. Transactions with related parties are carried out in commercial terms and conditions and at market prices.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the net position of the Ports Authority and additions and deductions to/from the Ports Authority's net position have been determined on the same basis as they are reported by the South Carolina Retirement Systems administered by the South Carolina Public Employees Benefit Authority (PEBA). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Subsequent Events

In preparing these financial statements, the Ports Authority has evaluated events and transactions for potential recognition or disclosure through September 24, 2020, the date the financial statements were available to be issued.

2. Cash and Investments

The Ports Authority's total cash and cash equivalents and investments at June 30, 2020 and 2019 was approximately \$673.6 million and \$551.4 million, respectively. Periodically, cash on deposit in federally insured institutions exceeds the limit on insured deposits and may not be specifically collateralized. The Ports Authority has not experienced any such losses in its cash or investment accounts and believes it is not exposed to any significant credit risk regarding cash and investments at June 30, 2020 and 2019.

The bond trustees invest in government agency securities and repurchase agreements collateralized by U.S. government securities. These investments are carried at their estimated fair values.

Investments held with the State Treasurer are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and the credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina. For the fiscal year ending June 30, 2020, approximately \$27,697,000 of the \$565,417,000 identified in the schedule on the following page as "Deposits held by State Treasurer" is attributable to unrealized appreciation. There was no unrealized appreciation for the fiscal year ending June 30, 2019.

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

The following schedule reconciles cash and investments in the notes to the Statements of Net Position as of June 30:

| <i>(in thousands of dollars)</i> | 2020 | 2019 |
|---|-------------------|-------------------|
| <u>Statements of Net Position</u> | | |
| Current assets | | |
| Cash and cash equivalents, unrestricted | \$ 250,973 | \$ 213,508 |
| Cash and cash equivalents, restricted | 367,868 | 169,781 |
| Cash and cash equivalents held by trustee for debt service | 28,478 | 21,712 |
| Investments, unrestricted | 5,568 | 5,375 |
| Investments, restricted | 17,687 | 132,350 |
| Noncurrent assets | | |
| Investments held by trustee for debt service | 3,039 | 8,628 |
| | <u>\$ 673,613</u> | <u>\$ 551,354</u> |
| <u>Deposits and Investments</u> | | |
| Deposits insured (FDIC) or collateralized by securities held by the pledging financial institution's agent in the Ports Authority's name | \$ 53,425 | \$ 55,612 |
| Deposits held by the State Treasurer's Office | 565,417 | 323,469 |
| Investments held by third party banks | 23,255 | 137,725 |
| Deposits held by trustee | 28,516 | 25,920 |
| U.S. government agency securities, held by trustee | 3,000 | 8,628 |
| | <u>\$ 673,613</u> | <u>\$ 551,354</u> |

General provisions regarding these Funds are as follows:

Restricted cash and investments are held for a specific purpose and therefore not available to the Authority for general business use. Current restricted funds include funds related to the 52-foot Harbor Deepening project, construction funds of the 2018, 2019A and 2019B Bond issuances, and escrow account for specific equipment purchases.

Investments held by the trustee for debt service include Revenue Bond Debt Service Funds and Revenue Bond Debt Service Reserve Funds, which are to be used for the redemption of bonds and payment of interest on the bonds. Additions to the Revenue Bond Debt Service Funds are required from operating funds in amounts equal to the annual principal and interest payments. Additions to the Reserve Funds are required from operating funds when the Reserve Fund's assets are less than the sum of the largest annual interest payment for each issue of revenue bonds outstanding. See Note 5. When the assets of the Reserve Funds exceed the requirements, the Ports Authority is permitted to use investment income from the Reserve Funds for principal and interest payments and thereby reduce the amount of operating funds required to be transferred to the Debt Service Funds. Moneys in the Debt Service Reserve Funds can be invested and reinvested in investments collateralized by U.S. government or agency obligations, with maturities consistent with the need for moneys in the funds.

The assets of the State Port Construction Fund, included in current cash and cash equivalents on the Statements of Net Position, are unexpended contributions to the Fund and net harbormaster fees required to be transferred to the Fund. The assets are internally designated for improvements and expansion of the Ports Authority's facilities.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Fair Value Guidance

Investments held by the Ports Authority are accounted for under GASB Statement No. 72, *Fair Value Measurement and Application* and are carried at their estimated fair value. This Statement requires the Ports Authority to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value.

The Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable for the asset, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the investment's risk. Money market mutual funds classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

The cost, gross unrealized gain, gross unrealized loss, and fair values of fixed maturity securities as of and for the years ended June 30, 2020 and 2019 are as follows:

(in thousands of dollars)

| Type of Investment | 2020 | | | |
|----------------------------|------------------|-----------------|-----------------|-------------------|
| | Cost | Unrealized Gain | Unrealized Loss | Fair Market Value |
| Money market funds | \$ 49,140 | \$ - | \$ - | \$ 49,140 |
| Mutual funds | 4,655 | - | - | 4,655 |
| U.S. treasury securities | 19,698 | 434 | - | 20,132 |
| Gov't sponsored securities | 1,417 | 52 | - | 1,469 |
| | <u>\$ 74,910</u> | <u>\$ 486</u> | <u>\$ -</u> | <u>\$ 75,396</u> |

(in thousands of dollars)

| Type of Investment | 2019 | | | |
|----------------------------|-------------------|-----------------|-----------------|-------------------|
| | Cost | Unrealized Gain | Unrealized Loss | Fair Market Value |
| Money market funds | \$ 67,840 | \$ - | \$ - | \$ 67,840 |
| Mutual funds | 3,162 | - | - | 3,162 |
| U.S. treasury securities | 140,984 | 412 | (10) | 141,386 |
| Gov't sponsored securities | 1,796 | 12 | (2) | 1,806 |
| | <u>\$ 213,782</u> | <u>\$ 424</u> | <u>\$ (12)</u> | <u>\$ 214,194</u> |

Unrealized gains on investments as reported on the Statements of Revenues, Expenses and Changes in Net Position of \$28,183 million for the year ended June 30, 2020 include unrealized gains on investments of \$486 thousand and unrealized appreciation on deposits held by state treasurer of \$27,697 million.

The investment balances in the tables above and below are included in the Statements of Net Position as investments (\$26.3 million and \$146.4 million as of June 30, 2020 and 2019, respectively) and investments held by trustee for debt service (\$3.0 million and \$8.6 million as of June 30, 2020 and 2019, respectively). There were no securities in an unrealized loss position at June 30, 2020.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

There were seven securities in an unrealized loss position representing approximately \$12,000 that had been in a continuous loss position for greater than 12 months at June 30, 2019.

The following table provides the hierarchy information about the Ports Authority's financial assets measured at fair value on a recurring basis at June 30:

(in thousands of dollars)

| Type of Investment | 2020 | | | |
|----------------------------|------------------|------------------|-------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Money market funds | \$ 49,140 | \$ - | \$ - | \$ 49,140 |
| Mutual funds | 4,655 | - | - | 4,655 |
| U.S. treasury securities | - | 20,132 | - | 20,132 |
| Gov't sponsored securities | - | 1,469 | - | 1,469 |
| | <u>\$ 53,795</u> | <u>\$ 21,601</u> | <u>\$ -</u> | <u>\$ 75,396</u> |

(in thousands of dollars)

| Type of Investment | 2019 | | | |
|----------------------------|------------------|-------------------|-------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Money market funds | \$ 67,840 | \$ - | \$ - | \$ 67,840 |
| Mutual funds | 3,162 | - | - | 3,162 |
| U.S. treasury securities | - | 141,386 | - | 141,386 |
| Gov't sponsored securities | - | 1,806 | - | 1,806 |
| | <u>\$ 71,002</u> | <u>\$ 143,192</u> | <u>\$ -</u> | <u>\$ 214,194</u> |

3. Capital Assets

Capital assets consist of the following amounts:

(in thousands of dollars)

| | Balance at June 30, 2019 | Additions | Disposals | Transfers | Balance at June 30, 2020 |
|--------------------------------------|--------------------------------|-------------------|--------------------|------------------|--------------------------------|
| Capital assets not depreciated: | | | | | |
| Land | \$ 374,214 | \$ 5,001 | \$ (5,495) | \$ 621 | \$ 374,341 |
| Capital projects in progress | <u>520,588</u> | <u>280,434</u> | <u>(11,849)</u> | <u>(173,572)</u> | <u>615,601</u> |
| Total capital assets not depreciated | <u>894,802</u> | <u>285,435</u> | <u>(17,344)</u> | <u>(172,951)</u> | <u>989,942</u> |
| Depreciable capital assets: | | | | | |
| Land improvements | 401,974 | - | - | 41,729 | 443,703 |
| Buildings and structures | 449,776 | - | (7,059) | 55,417 | 498,134 |
| Railroad tracks | 19,677 | - | - | 97 | 19,774 |
| Terminal equipment | 182,911 | - | (1,081) | 74,723 | 256,553 |
| Furniture and fixtures | 39,147 | - | - | 985 | 40,132 |
| Other | <u>52</u> | <u>-</u> | <u>(25)</u> | <u>-</u> | <u>27</u> |
| Total depreciable capital assets | <u>1,093,537</u> | <u>-</u> | <u>(8,165)</u> | <u>172,951</u> | <u>1,258,323</u> |
| Less: Accumulated depreciation | <u>600,317</u> | <u>54,814</u> | <u>(6,489)</u> | <u>-</u> | <u>648,642</u> |
| Depreciable capital assets, net | <u>493,220</u> | <u>(54,814)</u> | <u>(1,676)</u> | <u>172,951</u> | <u>609,681</u> |
| Capital assets, net | <u>\$ 1,388,022</u> | <u>\$ 230,621</u> | <u>\$ (19,020)</u> | <u>\$ -</u> | <u>\$ 1,599,623</u> |

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

| <i>(in thousands of dollars)</i> | Balance at June 30, 2018 | Additions | Disposals | Transfers | Balance at June 30, 2019 |
|--------------------------------------|--------------------------------|-------------------|-------------------|-----------------|--------------------------------|
| Capital assets not depreciated: | | | | | |
| Land | \$ 352,532 | \$ 23,970 | \$ (4,530) | \$ 2,242 | \$ 374,214 |
| Capital projects in progress | <u>403,960</u> | <u>215,748</u> | <u>(1,283)</u> | <u>(97,837)</u> | <u>520,588</u> |
| Total capital assets not depreciated | <u>756,492</u> | <u>239,718</u> | <u>(5,813)</u> | <u>(95,595)</u> | <u>894,802</u> |
| Depreciable capital assets: | | | | | |
| Land improvements | 408,479 | - | (23,374) | 16,869 | 401,974 |
| Buildings and structures | 413,221 | 160 | (31,476) | 67,871 | 449,776 |
| Railroad tracks | 19,418 | - | - | 259 | 19,677 |
| Terminal equipment | 189,522 | 157 | (13,161) | 6,393 | 182,911 |
| Furniture and fixtures | 36,881 | - | (1,937) | 4,203 | 39,147 |
| Other | <u>87</u> | <u>-</u> | <u>(35)</u> | <u>-</u> | <u>52</u> |
| Total depreciable capital assets | <u>1,067,608</u> | <u>317</u> | <u>(69,983)</u> | <u>95,595</u> | <u>1,093,537</u> |
| Less: Accumulated depreciation | <u>622,633</u> | <u>47,300</u> | <u>(69,616)</u> | <u>-</u> | <u>600,317</u> |
| Depreciable capital assets, net | <u>444,975</u> | <u>(46,983)</u> | <u>(367)</u> | <u>95,595</u> | <u>493,220</u> |
| Capital assets, net | <u>\$ 1,201,467</u> | <u>\$ 192,735</u> | <u>\$ (6,180)</u> | <u>\$ -</u> | <u>\$ 1,388,022</u> |

During the years ended June 30, 2020 and 2019, the Ports Authority incurred interest costs of \$45.4 million and \$37.6 million, respectively. In fiscal year 2020, the Ports Authority adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. With the adoption of this Statement, interest expense is no longer capitalized and expensed in the Statement of Revenues, Expenses and Changes in Net Position. Therefore, of the incurred interest costs, \$0 and \$27.0 million, were capitalized in the fiscal years ended June 30, 2020 and 2019, respectively.

Leases

During the years ended June 30, 2020 and 2019, the Ports Authority leased yard trucks and other equipment under operating leases, generally for a term of 12 months or less, incurring expenses of approximately \$2,165,000 and \$1,968,000 respectively.

During the years ended June 30, 2020 and 2019, the Ports Authority leased office and warehouse space as well as land under operating leases, incurring expenses of approximately \$214,000 and \$1,570,000, respectively.

4. Goodwill

Goodwill is accounted for under GASB 85, *Omnibus* and GASB 69, *Government Combinations and Disposals of Government Operations* and is reported as a deferred outflow of resources in the Statements of Net Position. Deferred outflows of resources related to goodwill are attributed to future periods in a systematic and rational manner determined by the Ports Authority.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

Deferred outflows of resources related to goodwill are amortized over a period of ten years. Amortization expense for the next five years and thereafter is as follows:

(in thousands of dollars)

| | | |
|------------|-----------|--------------|
| 2021 | \$ | 219 |
| 2022 | | 219 |
| 2023 | | 219 |
| 2024 | | 219 |
| 2025 | | 219 |
| Thereafter | | 438 |
| | <u>\$</u> | <u>1,533</u> |

5. Long-Term Debt

Borrowings and payments on long-term debt are as follows:

| <i>(in thousands of dollars)</i> | June 30, 2019 | Additions | Reductions | June 30, 2020 | Current Portion |
|----------------------------------|-------------------|-------------------|---------------------|---------------------|--------------------|
| Revenue bonds – Series 2015 | \$ 294,025 | \$ - | \$ (238,725) | \$ 55,300 | \$ - |
| Revenue bonds – Series 2018 | 325,000 | - | (6,030) | 318,970 | 6,325 |
| Revenue bonds – Series 2019 A | - | 121,910 | - | 121,910 | - |
| Revenue bonds – Series 2019 B | - | 258,420 | - | 258,420 | - |
| Revenue bonds – Series 2019 C | - | 125,000 | - | 125,000 | - |
| Revenue bonds – Series 2019 D | - | 151,580 | - | 151,580 | - |
| Notes payable | 267,980 | 82,933 | (89,554) | 261,359 | 9,300 |
| Harbor deepening obligation | 3,997 | - | (116) | 3,881 | 120 |
| | 891,002 | 739,843 | (334,425) | 1,296,420 | 15,745 |
| Plus: Unamortized premium | 57,845 | 41,469 | (21,660) | 77,654 | - |
| | <u>\$ 948,847</u> | <u>\$ 781,312</u> | <u>\$ (356,085)</u> | <u>\$ 1,374,074</u> | <u>\$ 15,745</u> |

| <i>(in thousands of dollars)</i> | June 30, 2018 | Additions | Reductions | June 30, 2019 | Current Portion |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Revenue bonds – Series 2015 | \$ 294,025 | \$ - | \$ - | \$ 294,025 | \$ - |
| Revenue bonds – Series 2018 | 325,000 | - | - | 325,000 | 6,030 |
| Notes payable | 161,658 | 110,000 | (3,678) | 267,980 | 6,620 |
| Harbor deepening obligation | 4,110 | - | (113) | 3,997 | 116 |
| | 784,793 | 110,000 | (3,791) | 891,002 | 12,766 |
| Plus: Unamortized premium | 59,587 | - | (1,742) | 57,845 | 1,823 |
| | <u>\$ 844,380</u> | <u>\$ 110,000</u> | <u>\$ (5,533)</u> | <u>\$ 948,847</u> | <u>\$ 14,589</u> |

Series 2019D

On November 20, 2019, the Ports Authority issued \$151,580,000 of Series 2019D Bonds having stated interest rates from 2.95% to 3.87% payable annually on each January 1 and July 1. Net proceeds of \$164,287,011 were received to (i) refund certain maturities of the Authority's Series 2015 Bonds and (ii) to pay certain costs and expenses relating to the issuance and sale of the Series 2019D Bonds. As a result of the Series 2019D refunding, the Ports Authority achieved net present value savings of \$11,185,072.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Series 2019A, 2019B, and 2019C (2019 Bonds)

On October 2, 2019, the Ports Authority issued \$505,330,000 of Series 2019 (A, B, & C) Bonds having stated interest rates from 3.0% to 5.0% payable annually on each January 1 and July 1. Net proceeds of \$545,942,043 were received to (i) pay or reimburse the Authority for a portion of the cost of a port access road and related improvements in connection with the development by the Authority of the Hugh K. Leatherman, Sr. Terminal (Leatherman Terminal), (ii) pay or reimburse the Authority for construction, equipment and other capital costs in connection with the Leatherman Terminal, and certain capital expenditures included in the Authority's capital plan, (iii) refund certain maturities of the Ports Authority's Series 2015 Bonds, and (iv) to pay certain costs and expenses relating to the issuance of the Series 2019A, 2019B, and 2019C Bonds. The Series 2019A and 2019B Bonds, issued at a premium of \$13,779,974 and \$27,688,640, respectively, consist of term bonds maturing between July 1, 2022 and 2059. The bond premium is amortized using the effective interest method over the life of the bonds. Bond issuance costs were expensed in the period incurred. The Series 2019C refunding was issued at par and resulted in net present value savings of \$9,752,855 for the Ports Authority.

Series 2018

On June 6, 2018, the Ports Authority issued \$325,000,000 of Series 2018 Bonds having stated interest rates from 4.0% to 5.0% payable annually on each January 1 and July 1. Net proceeds of \$364,585,000 were received to (i) pay or reimburse the Ports Authority for costs associated with the expansion and improvement of the Ports Authority's facilities, including the reimbursement to the Ports Authority of certain costs previously incurred and certain capital expenditures as included in the Ports Authority's capital budget for fiscal years 2018 through 2020 in the amount of \$363,372,000 and (ii) \$1,785,000 to pay certain costs and expenses related to the issuance of the Series 2018 Bonds. The bonds, issued at a premium of approximately \$40,158,000, consist of term bonds maturing between July 1, 2019 and 2055. The bond premium is amortized using the effective interest method over the life of the bonds. Bond issuance costs were expensed in the period incurred.

Series 2015

On November 4, 2015, the Ports Authority issued \$294,025,000 of Series 2015 Bonds having stated interest rates ranging from 3.5% to 5.25% payable annually on each January 1 and July 1. Net proceeds of \$314,260,000 were received to (i) pay or reimburse the Ports Authority for costs associated with the expansion and improvement of the Ports Authority's facilities, including the reimbursement to the Ports Authority of certain costs previously incurred and certain capital expenditures as included in the Ports Authority's capital budget for fiscal years 2016 through 2018 in the amount of \$300,000,000, (ii) \$12,443,000 to fund the debt service reserve fund and (iii) \$1,817,000 to pay certain costs and expenses related to the issuance of the Series 2015 bonds. The bonds, issued at a premium of approximately \$20,235,000, consist of term bonds maturing between July 1, 2026 and 2055. The bond premium is amortized using the effective interest method over 40 years, the life of the bonds. Bond issuance costs were expensed in the period incurred.

In connection with the Series 2019A, 2019B, 2019C, 2019D, 2018 and 2015 outstanding revenue bonds, (1) the Ports Authority's net revenues (defined as the portion of revenues remaining after providing for the proper operation and maintenance of facilities) are pledged for payment of bond principal and interest, (2) a statutory lien on the Ports Authority's facilities exists and (3) for Series 2015 only, the Ports Authority is required to maintain Revenue Bond Debt Service Funds; Revenue Bond Debt Service Reserve Funds; an Operations and Maintenance Fund; a Construction Fund (until funds are exhausted) and a Capital Improvement Fund (for improvement of Ports Authority facilities); and a Depreciation Fund (for operating equipment). Management believes the Ports Authority is in compliance with these covenants as of June 30, 2020 and 2019.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Optional Redemption

The 2019D Bonds shall be subject to redemption prior to maturity, at the option of the Ports Authority, on and after July 1, 2029, in whole or in part at any time and in any order of maturity selected by the Ports Authority, at the principal amount of the Series 2019D Bonds to be redeemed, together with interest accrued thereon on the date fixed for redemption. The Series 2019 Bonds maturing on or after July 1, 2030, shall be subject to redemption prior to maturity, at the option of the Ports Authority, on and after July 1, 2029, in whole or in part, at any time in any order of maturity selected by the Ports Authority, at the principal amount of the 2019D Bonds to be redeemed, together with interest accrued thereon on the date fixed for redemption.

The Series 2018 and 2015 Bonds maturing on or after July 1, 2029 and 2026, respectively, shall be subject to redemption prior to maturity, at the option of the Ports Authority, on and after July 1, 2028 and 2025, respectively, in whole or in part, at any time in any order of maturity selected by the Ports Authority, at the principal amount of the Series 2018 and 2015 Bonds to be redeemed, together with interest accrued thereon to the date fixed for redemption.

Mandatory Sinking Fund Redemption

The Series 2019D and Series 2019C Bonds shall be subject to mandatory sinking fund redemption, by lot in such manner as the trustee shall deem fair and appropriate for random selection, prior to maturity, commencing July 1, 2035, and on each July 1 thereafter, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, without premium.

The Series 2019A and Series 2019B Bonds shall be subject to mandatory sinking fund redemption, by lot in such manner as the trustee shall deem fair and appropriate for random selection, prior to maturity, commencing July 1, 2040, and on each July 1 thereafter, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, without premium.

The Series 2018 Bonds shall be subject to mandatory sinking fund redemption, by lot in such manner as the trustee shall deem fair and appropriate for random selection, prior to maturity, commencing July 1, 2039, and on each July 1 thereafter, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, without premium.

The Series 2015 Bonds shall be subject to mandatory sinking fund redemption, by lot in such manner as the trustee shall deem fair and appropriate for random selection, prior to maturity, commencing July 1, 2036, and on each July 1 thereafter, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, without premium.

Direct Borrowings

On April 17, 2020, the Ports Authority entered into a loan and security agreement with a bank for \$82,932,577. The loan was evidenced by certain Subordinate Lien Revenue Bond, Series 2020, in the same amount. Proceeds were used to refund the Ports Authority's \$25,000,000 Subordinate Lien Revenue Bond, Series 2016, \$20,000,000 Subordinate Lien Revenue Bond, Series 2019A and \$40,000,000 Subordinate Lien Revenue Bond, Series 2019B which were issued to purchase material handling equipment for the Wando Welch Terminal with the purchased assets securing the loan. Principal and interest are payable semi-annually at a rate of 2.086% per annum, beginning September 15, 2020 with payments made semi-annually thereafter until the loan matures on March 15, 2035. As of June 30, 2020, the Ports Authority had amounts outstanding under this loan agreement of \$82,932,577.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

Pursuant to a loan agreement dated as of April 30, 2019, the Ports Authority entered into a loan agreement with the South Carolina State Treasurer's Office for \$50,000,000 in advance of the contribution by the United States government of the federal share of the cost of the Charleston Harbor deepening project (see Note 6). The loan is payable as to interest only until such time as either the debt is extinguished, or the principal amortization commences. The loan bears interest at a per annum rate equal to the average yield on the South Carolina State investment pool which is 2.27% and 2.1% as of June 30, 2020 and 2019, respectively. Upon receipt by the Ports Authority of the federal government's reimbursement of any moneys advanced by the Ports Authority for the federal share of the cost of the Charleston Harbor deepening project, the Ports Authority is required to apply such funds to any principal amount remaining on the loan on the date of reimbursement. If the Authority makes no principal payments on the loan by January 1, 2025, the Ports Authority will pay, from available funds, based on no more than a 25-year amortization, the drawn principal balance. The loan is unsecured and expressly subordinate to all debt obligations of the Ports Authority.

On March 19, 2019, the Ports Authority entered into a loan and security agreement with a bank for \$40,000,000. The loan was evidenced by certain Subordinate Lien Revenue Bond, Series 2019B, in the same amount. Proceeds were used to purchase material handling equipment for the Wando Welch Terminal. Interest is payable semi-annually at a rate of 3.16% per annum, beginning September 15, 2019. The first principal payment is due September 15, 2020, and payments are made semi-annually thereafter until the loan matures on March 15, 2035. This loan was refunded during the fiscal year ended June 30, 2020 with Subordinate Lien Revenue Bond, Series 2020 and as of June 30, 2020, the Ports Authority had no amounts outstanding under this loan agreement.

On January 15, 2019, the Ports Authority entered into a loan and security agreement with a bank for \$20,000,000. The loan was evidenced by certain Subordinate Lien Revenue Bond, Series 2019A, in the same amount. Proceeds were used to purchase material handling equipment for the Wando Welch Terminal with the purchased assets securing the loan. Interest is payable semi-annually at a rate of 3.439% per annum, beginning July 15, 2019. The first principal payment is due July 15, 2020, and payments are made semi-annually thereafter until the loan matures on January 15, 2035. This loan was refunded during the fiscal year ended June 30, 2020 with Subordinate Lien Revenue Bond, Series 2020 and as of June 30, 2020, the Ports Authority had no amounts outstanding under this loan agreement.

On May 15, 2018, the Ports Authority entered into a loan and security agreement with a bank for \$80,000,000. The loan was evidenced by certain Subordinate Lien Revenue Bond, Series 2018, in the same amount. Proceeds were used to purchase material handling equipment for the Wando Welch Terminal with the purchased assets securing the loan. Interest is payable semi-annually at a rate of 3.341% per annum, beginning November 15, 2018. The first principal payment was due November 15, 2019, and payments are made annually thereafter until the loan matures on May 15, 2034. As of June 30, 2020, the Ports Authority had amounts outstanding under this loan agreement of \$77,133,000.

On March 21, 2017, the Ports Authority entered into a mortgage of real estate and security agreement with Marlboro Development Team, Inc., a South Carolina Corporation for \$20,000,000. Proceeds were used for the development and construction of the South Carolina Inland Port located in Dillon, SC. Principal and interest are payable annually with interest based on a rate of 2.7% per annum. The loan matures on March 21, 2037. As of June 30, 2020, and 2019, the Ports Authority had amounts outstanding under this loan agreement of \$17,635,000 and \$18,445,000, respectively.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

On December 15, 2016, the Ports Authority entered into a loan and security agreement with a bank for \$25,000,000. The loan was evidenced by certain Subordinate Lien Revenue Bond, Series 2016, in the same amount. Proceeds were used to purchase material handling equipment for the Wando Welch and North Charleston Terminals with the purchased assets securing the loan. Interest is payable semi-annually at a rate of 2.056% per annum, beginning June 15, 2017. The first principal payment is due December 15, 2018 and are made annually thereafter until the loan matures on December 15, 2032. This loan was refunded during the fiscal year ended June 30, 2020 with Subordinate Lien Revenue Bond, Series 2020 and as of June 30, 2020, the Ports Authority had no amounts outstanding under this loan agreement.

On January 29, 2015, the Ports Authority entered into a promissory note agreement with a bank for \$14,000,000. Interest was payable monthly for twelve months and then, semi-annually beginning July 29, 2016. The interest rate per annum is based on the 90-day published LIBOR plus .85%, with a floor of 1.25%. The first principal payment was due January 29, 2017. Principal payments are made annually in equal amounts with all outstanding principal and interest due on January 29, 2025. Proceeds from this note were used for the development and construction of a cold storage facility located in North Charleston, SC. As of June 30, 2020, and 2019, the Ports Authority had amounts outstanding under this loan agreement of \$11,760,000 and \$12,320,000, respectively.

On December 19, 2012, the Ports Authority entered into a promissory note agreement with a bank for \$25,000,000. The promissory note was increased to \$30,000,000 on June 20, 2013. Principal and interest are payable monthly with interest based on a rate of 2.56% per annum. The loan matures on December 19, 2022. Proceeds from this note were used for the development and construction of the South Carolina Inland Port located in Greer, SC. As of June 30, 2020, and 2019, the Ports Authority had amounts outstanding under this loan agreement of \$21,893,000 and \$23,231,000, respectively.

Maturities of long-term debt are summarized as follows:

| <i>(in thousands of dollars)</i> | Revenue Bonds | | Direct Borrowing Debt | |
|----------------------------------|----------------------|---------------------|------------------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2021 | \$ 6,325 | \$ 44,148 | \$ 9,420 | \$ 5,401 |
| 2022 | 6,650 | 43,824 | 9,499 | 5,312 |
| 2023 | 8,980 | 43,433 | 27,403 | 4,830 |
| 2024 | 11,275 | 42,927 | 8,501 | 4,369 |
| 2025 | 11,840 | 42,349 | 67,675 | 4,100 |
| 2026–2030 | 69,240 | 201,963 | 44,218 | 16,709 |
| 2031–2035 | 94,660 | 182,449 | 94,354 | 9,543 |
| 2036–2040 | 124,145 | 157,189 | 3,501 | 293 |
| 2041–2045 | 155,545 | 125,804 | 669 | 41 |
| 2046–2050 | 191,610 | 89,723 | - | - |
| 2051–2055 | 233,935 | 47,409 | - | - |
| 2056–2060 | 116,975 | 9,360 | - | - |
| | <u>\$ 1,031,180</u> | <u>\$ 1,030,578</u> | <u>\$ 265,240</u> | <u>\$ 50,598</u> |

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

The components of interest expense for the years ended June 30, 2020 and 2019 are as follows:

| <i>(in thousands)</i> | 2020 | 2019 |
|---|------------------|-----------------|
| Interest expense on long-term debt | \$ 47,276 | \$ 37,636 |
| Amortization of premiums on long-term debt | (2,580) | (1,743) |
| Amortization of deferred outflows for bond refundings | 715 | - |
| Unrealized gain on interest rate exchange agreements | - | (250) |
| Capitalized interest expense | - | (26,964) |
| | <u>\$ 45,411</u> | <u>\$ 8,679</u> |

In fiscal year 2020, the Ports Authority adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. With the adoption of this Statement, interest expense is no longer capitalized and expensed in the Statement of Revenues, Expenses and Changes in Net Position.

6. Commitments

Construction

In addition to routine commitments for repairs and maintenance, the Ports Authority had commitments for construction of approximately \$268.1 million and \$193.9 million as well as commitments for non-construction property, plant, and equipment of approximately \$604 thousand and \$34.0 million at June 30, 2020 and 2019, respectively.

Harbor Deepening

On July 19, 2017, the Ports Authority executed a Project Partnership Agreement (PPA) with the Department of the Army to commence construction of the post-45 harbor deepening project for the Charleston Harbor. The US Army Corps of Engineers has estimated that portions of the harbor deepening project will be complete by 2021 and, as of fiscal year 2020, is expected to cost approximately \$558 million. Based on US Army Corps of Engineers Project Management Plan, it is anticipated that the local share of the project will be approximately \$270 million and the federal share will be approximately \$288 million. As of June 30, 2020, this project has been fully funded after final Senate approval in October 2019. The State appropriated \$300 million, together with interest earned thereon, to cover costs associated with the deepening of the Charleston Harbor. In addition, the State advanced the proceeds of the \$50 million Proviso Loan to bridge the federal funding period (see Note 5). The Proviso Loan is expected to be paid back by federal funds when received and approved for reimbursement. To date, the federal government has authorized \$246 million, which will fully fund the project.

The Ports Authority and the Army Corps of Engineers (Federal entity) entered into a cooperation agreement to further deepen the Charleston Harbor to its present depth of 45 feet on June 5, 1998. The Ports Authority has paid a portion of the local share amount of \$47.7 million, utilizing \$31.7 million from the State of South Carolina's funding sources provided for this project. The remaining portion of the local share is being paid over a period of 30 years and includes annual interest of 3%. As of June 30, 2020, and 2019, the remaining balance is \$3.9 million and \$4.0 million, respectively, and is reflected in current and noncurrent maturities of long term debt in the Statements of Net Position.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Hugh K. Leatherman Sr. Terminal

In May 2007, the Ports Authority received permits to begin construction of a 286-acre container terminal facility on a portion of the former Charleston Naval Base on the west bank of the Cooper River in North Charleston, SC. This facility is planned to be constructed in phases, with construction of the first phase having already commenced and expected to be completed in March 2021. The first phase consists of 1,400 linear feet of berth, 134 developed acres, five ship-to-shore cranes, and 25 rubber-tired-gantry-cranes. The cost for the first phase is currently estimated to be approximately \$846 million and is subject to revision based on the timing of construction and other factors which could result in a significant increase in total project costs. The remaining phases will be developed over many years on a demand driven basis. As of June 30, 2020, the Ports Authority has spent approximately \$597.7 million on construction, permitting, consulting and engineering costs related to the first phase of the new terminal.

Corporate Office

During fiscal year 2019, construction was completed for a new 80,000 square foot corporate office complex located adjacent to the Wando Welch Terminal in Mount Pleasant, South Carolina. The new facility consolidated Ports Authority employees previously located in five disparate offices across the Charleston area. A total of \$43.2 million in costs were incurred as of June 30, 2020 with the total project cost not to exceed \$44.5 million. All employees were moved into the new office by March 2019.

7. Interest Rate Exchange Agreements

On July 1, 2008, the Ports Authority adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement provides guidance on recognition, measurement and disclosure of derivative instruments entered by governmental entities.

In August 2019, all three derivative instruments held by the Ports Authority were terminated for \$410,500. Therefore, on June 30, 2020 the Authority had no derivative instruments outstanding.

On June 30, 2019, the Ports Authority had the following derivative instruments outstanding:

| 2019 item | Type | Objective | Current notional amount | Effective date | Maturity date | Terms | Counterparty rating |
|-----------|-----------------------------|---|-------------------------|----------------|---------------|---|---------------------|
| A | Pay Fixed-Receive Floating | Hedge of changes in cash flows on the Series 1998 bonds | \$15,667,500 | 7/1/2008 | 7/1/2026 | Pay 3.6671% Fixed Receive 70% of 1M LIBOR | Aa2/AA |
| B | Pay Fixed-Receive Floating | Hedge of changes in cash flows on the Series 1998 bonds | 36,557,500 | 7/1/2008 | 7/1/2026 | Pay 3.6671% Fixed Receive 70% of 1M LIBOR | A1/A |
| C | Received Fixed-Pay Floating | Hedge of changes in cash flows on the Series 1998 bonds | 52,225,000 | 7/1/2008 | 7/1/2026 | Pay SIFMA Receive 3.508% | A1/A |

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

As of June 30, 2019, the Ports Authority determined that none of its interest rate swaps met the criteria under GASB 53 for effectiveness; therefore, all three of the Port Authority's interest rate swap contracts were classified as investment derivatives per guidance included in GASB No. 53. Changes in the fair value of the interest rate swap contracts were included in nonoperating income (expense) on the Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2020.

The fair values of the interest rate swaps were estimated using the zero-coupon method of bootstrapping the yield curve. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. All interest rate swaps were classified as Level 2 investments in the Fair Value Hierarchy under GASB 72.

Changes in fair value at June 30, 2020 and 2019 are as follows:

| | Derivative | 2020 | 2019 | Change in fair value |
|--------|----------------------------|-------------|---------------------|----------------------|
| Item A | Pay Fixed Receive Floating | \$ - | \$ (1,274,441) | \$ 1,274,441 |
| Item B | Pay Fixed Receive Floating | - | (2,970,809) | 2,970,809 |
| Item C | Receive Fixed Pay Floating | - | 3,943,963 | (3,943,963) |
| | | <u>\$ -</u> | <u>\$ (301,287)</u> | <u>\$ 301,287</u> |

Changes in fair value at June 30, 2019 and 2018 are as follows:

| | Derivative | 2019 | 2018 | Change in fair value |
|--------|----------------------------|---------------------|---------------------|----------------------|
| Item A | Pay Fixed Receive Floating | \$ (1,274,441) | \$ (1,121,000) | \$ (153,441) |
| Item B | Pay Fixed Receive Floating | (2,970,809) | (2,616,000) | (354,809) |
| Item C | Receive Fixed Pay Floating | 3,943,963 | 3,185,000 | 758,963 |
| | | <u>\$ (301,287)</u> | <u>\$ (552,000)</u> | <u>\$ 250,713</u> |

Credit Risk

The Ports Authority is exposed to actual credit risk on investment derivatives that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Ports Authority's policy to require collateral posting provisions in its nonexchange traded derivatives. Those terms require the full collateralization of the fair value of derivative instruments in asset positions (net of any netting provisions) should the counterparty's rating fall below Baa2 or BBB. In addition, each credit support annex requires collateral posting at various rating levels with threshold amounts. Collateral generally consists of cash, U.S. government securities and U.S. agency securities. As of 2019 no collateral was posted by any counterparty under any derivatives contracts.

Foreign Currency Risk

None of the Ports Authority's derivative instruments were denominated in a foreign currency and were not subject to foreign currency risk.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Commitments

All the Ports Authority's derivative instruments contained provisions that require the Ports Authority to post collateral in the event of credit rating downgrades, subject to certain threshold amounts and minimum transfer amounts. As of June 30, 2019, the Ports Authority had a credit rating of A1 by Moody's and A+ by Standard & Poor's and no collateral was posted under any derivative instruments.

8. Retirement Plans

The South Carolina Public Employee Benefit Authority (PEBA), created July 1, 2012, is the state agency responsible for the administration and management of the various Retirement Systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems' five defined benefit pension plans. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the Systems and the assets of the retirement trust funds. The Retirement System Investment Commission (Commission as the governing body, RSIC as the agency), created by the General Assembly in 2005, has exclusive authority to invest and manage the retirement trust funds' assets. The commission, an eight-member board, serves as co-trustee and co-fiduciary for the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29233. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Descriptions

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state-agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election.

The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired employees of state agencies, institutions of higher education, public school districts and individuals first elected to the General Assembly at or after the general election in November 2012. State ORP participants direct the investment of their funds into an account administered by one of four third party service providers. For this reason, State ORP assets are not part of the retirement systems' trust funds for financial statement purposes.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits to police officers and firefighters. PORS also covers peace officers, coroners, probate judges and magistrates.

In addition to the plans described above, PEBA also administers three single employer defined benefit pension plans, which are not covered in this report. They are the Retirement System for Members of the General Assembly of the State of South Carolina (GARS), the Retirement System for Judges and Solicitors of the State of South Carolina (JSRS), and the South Carolina National Guard Supplement Retirement Plan (SCNG).

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- **SCRS** - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.
- **State ORP** - As an alternative to membership in SCRS, certain newly hired state, public school, and higher education employees and individuals first elected to the S.C. General Assembly at or after the November 2012 general election have the option to participate in the State ORP. Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employer to the member's account with the ORP service provider for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.
- **PORS** - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; be a coroner in a full-time permanent position; or be a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary. A brief summary of benefit terms for each system is presented below.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

- PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.
- The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

Contributions

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS and PORS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. Legislation in 2017 increased, but also established a ceiling for SCRS and PORS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00% for SCRS and 9.75% for PORS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year through July 1, 2022. If the scheduled contributions are not sufficient to meet the funding periods set in state statute, the board shall increase the employer contribution rates as necessary to meet the funding periods set for the applicable year. The maximum funding period of SCRS and PORS is scheduled to be reduced over a ten-year schedule from 30 years beginning fiscal year 2018 to 20 years by fiscal year 2028.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

Additionally, the Board is prohibited from decreasing the SCRS and PORS contribution rates until the funded ratio is at least 85 percent. If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 85 percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85 percent. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than 85 percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 85 percent.

Required employee contribution rates are as follows:

| | 2020 | 2019 |
|---------------------------|--------|--------|
| SCRS | | |
| Employee class two | 9.00 % | 9.00 % |
| Employee class three | 9.00 % | 9.00 % |
| State ORP employee | 9.00 % | 9.00 % |
| PORS | | |
| Employee class two | 9.75 % | 9.75 % |
| Employee class three | 9.75 % | 9.75 % |

Required employer contribution rates are as follows:

| | 2020 | 2019 |
|-----------------------------------|---------|---------|
| SCRS | | |
| Employer class two | 15.41 % | 14.41 % |
| Employer class three | 15.41 % | 14.41 % |
| Employer incidental death benefit | 0.15 % | 0.15 % |
| State ORP | | |
| Employer contribution | 15.41 % | 0.34 % |
| Employer incidental death benefit | 0.15 % | 0.15 % |
| PORS | | |
| Employer class two | 17.84 % | 16.84 % |
| Employer class three | 17.84 % | 16.84 % |
| Employer incidental death benefit | 0.20 % | 0.20 % |
| Employer accidental death program | 0.20 % | 0.20 % |

Actuarial Assumptions and Methods

Actuarial valuations of the plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2015.

The June 30, 2019, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in this report were determined by our consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on an actuarial valuation performed as of July 1, 2018. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2019, using generally accepted actuarial principles.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2019 and June 30, 2018.

| | SCRS | PORS |
|----------------------------|-----------------------|-----------------------|
| Actuarial cost method | Entry age normal | Entry age normal |
| Actuarial assumptions | | |
| Investment rate of return | 7.25% | 7.25% |
| Projected salary increases | 3.0% to 12.5% | 3.5% to 9.5% |
| Includes inflation at | 2.25% | 2.25% |
| Benefit adjustments | lesser of 1% or \$500 | lesser of 1% or \$500 |

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

Assumptions used in the determination of the TPL as of June 30, 2019 and 2018 are as follows.

| Former job class | Males | Females |
|---|---------------------------------------|---|
| Educators | 2016 PRSC Males multiplied by 92% | 2016 PRSC Females multiplied by 98% |
| General employees and members of the general assembly | 2016 PRSC Males multiplied by 100% | 2016 PRSC Females multiplied by 111% |
| Public safety and firefighters | 2016 PRSC Males multiplied by 125% | 2016 PRSC Females multiplied by 111% |

Net Pension Liability

The NPL is calculated separately for each system and represents that particular system's TPL determined in accordance with GASB No. 67 less that System's fiduciary net position.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NPL totals, as of June 30, 2019 and 2018, for SCRS and PORS are presented below.

| 2019 | | | | |
|----------------------------------|--------------------------------|------------------------------------|---|---|
| <i>(in thousands of dollars)</i> | | | | |
| | Total Pension Liability | Plan Fiduciary Net Position | Employers' Net Pension Liability (Asset) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
| SCRS | \$ 50,073,060 | \$ 27,238,916 | \$ 22,834,144 | 54.4% |
| PORS | 7,681,750 | 4,815,809 | 2,865,941 | 62.7% |

| 2018 | | | | |
|----------------------------------|--------------------------------|------------------------------------|---|---|
| <i>(in thousands of dollars)</i> | | | | |
| | Total Pension Liability | Plan Fiduciary Net Position | Employers' Net Pension Liability (Asset) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
| SCRS | \$ 48,821,731 | \$ 26,414,916 | \$ 22,406,815 | 54.1% |
| PORS | 7,403,973 | 4,570,430 | 2,833,543 | 61.7% |

The TPL is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The NPL is disclosed in accordance with the requirements of GASB No. 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020 and 2019, the Ports Authority reported a liability of \$118.3 million and \$105.7 million, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, respectively, and the total pension liability was determined by an actuarial valuation as of that date. The Ports Authority's proportion of the net pension liability was based on its share of contributions to the pension plans in fiscal years 2019 and 2018 relative to the contributions made by all participating employers. At June 30, 2019 and 2018, the Ports Authority's proportion was 0.5170 and 0.4693 percent, respectively for the SCRS and 0.0094 and 0.0093 percent, respectively for the PORS.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

For the years ended June 30, 2020 and 2019, the Ports Authority recognized pension expense of \$20.2 million and \$14.6 million, respectively. At June 30, 2020 and 2019, the Ports Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2020 | |
|---|---------------------------------------|--------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| <i>(in thousands of dollars)</i> | | |
| Difference between actual and expected experience | \$ 86 | \$ 850 |
| Net difference between projected and actual earnings on pension plan investments | 1,049 | - |
| Changes in actuarial assumptions | 2,390 | - |
| Changes in proportionate share and differences between contributions and proportionate share of contributions | 12,600 | 4 |
| The Ports Authority's contributions subsequent to the measurement date | 9,185 | - |
| | <u>\$ 25,310</u> | <u>\$ 854</u> |

| | 2019 | |
|---|---------------------------------------|--------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| <i>(in thousands of dollars)</i> | | |
| Difference between actual and expected experience | \$ 198 | \$ 618 |
| Net difference between projected and actual earnings on pension plan investments | 1,676 | - |
| Changes in actuarial assumptions | 4,190 | - |
| Changes in proportionate share and differences between contributions and proportionate share of contributions | 8,843 | 7 |
| The Ports Authority's contributions subsequent to the measurement date | 7,973 | - |
| | <u>\$ 22,880</u> | <u>\$ 625</u> |

The \$9.2 million and \$8.0 million reported as deferred outflows of resources related to pensions resulting from the Port's contributions paid subsequent to the measurement date for the SCRS and PORS plans during the years ended June 30, 2020 and 2019, respectively, will be recognized as a reduction of the net pension liability during the years ended June 30, 2020 and 2019, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | SCRS | PORS |
|----------------------------------|--------------|-------------|
| Years Ended June 30, 2020 | | |
| 2020 | \$ 8,848,277 | \$ 19,141 |
| 2021 | 3,205,747 | 2,600 |
| 2022 | 2,727,238 | 505 |
| 2023 | 466,587 | 1,122 |

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

| | SCRS | PORS |
|----------------------------------|--------------|-----------|
| Years Ended June 30, 2019 | | |
| 2020 | \$ 7,960,267 | \$ 23,529 |
| 2021 | 5,788,031 | 18,435 |
| 2022 | 533,889 | 1,906 |
| 2023 | (46,142) | (187) |

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The long-term expected rate of returns represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted at the beginning of the 2019 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.66 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

| | 2020 | | |
|----------------------------------|--------------------------------|--|---|
| | Target asset allocation | Expected arithmetic real rate of return | Long term expected portfolio real rate of return |
| Asset class | | | |
| Global equity | 51.0% | | |
| Global public equity | 35.0 | 7.29% | 2.55% |
| Private equity | 9.0 | 7.67 | 0.69 |
| Equity options strategies | 7.0 | 5.23 | 0.37 |
| Real assets | 12.0 | | |
| Real estate (Private) | 8.0 | 5.59 | 0.45 |
| Real estate (REITs) | 1.0 | 8.16 | 0.08 |
| Infrastructure (Private) | 2.0 | 5.03 | 0.10 |
| Infrastructure (Public) | 1.0 | 6.12 | 0.06 |
| Opportunistic | 8.0 | | |
| Global Tactical Asset Allocation | 7.0 | 3.09 | 0.22 |
| Other opportunistic strategies | 1.0 | 3.82 | 0.04 |
| Credit | 15.0 | | |
| High Yield Bonds/Bank Loans | 4.0 | 3.14 | 0.13 |
| Emerging markets debt | 4.0 | 3.31 | 0.13 |
| Private debt | 7.0 | 5.49 | 0.38 |
| Rate Sensitive | 14.0 | | |
| Core fixed income | 13.0 | 1.62 | 0.21 |
| Cash and short duration (net) | 1.0 | 0.31 | 0.00 |
| Total expected real return | <u>100.0%</u> | | 5.41% |
| Inflation for actuarial purposes | | | <u>2.25</u> |
| Total expected nominal return | | | <u>7.66%</u> |

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

| | 2019 | | |
|----------------------------------|--------------------------------|--|---|
| | Target asset allocation | Expected arithmetic real rate of return | Long term expected portfolio real rate of return |
| Asset class | | | |
| Global equity | 47.0% | | |
| Global public equity | 33.0 | 6.99% | 2.31% |
| Private equity | 9.0 | 8.73 | 0.79 |
| Equity options strategies | 5.0 | 5.52 | 0.28 |
| Real assets | 10.0 | | |
| Real estate (Private) | 6.0 | 3.54 | 0.21 |
| Real estate (REITs) | 2.0 | 5.46 | 0.11 |
| Infrastructure | 2.0 | 5.09 | 0.10 |
| Opportunistic | 13.0 | | |
| GTAA/risk parity | 8.0 | 3.75 | 0.30 |
| Hedge funds (non-PA) | 2.0 | 3.45 | 0.07 |
| Other opportunistic strategies | 3.0 | 3.75 | 0.11 |
| Diversified credit | 18.0 | | |
| Mixed credit | 6.0 | 3.05 | 0.18 |
| Emerging markets debt | 5.0 | 3.94 | 0.20 |
| Private debt | 7.0 | 3.89 | 0.27 |
| Conservative fixed income | 12.0 | | |
| Core fixed income | 10.0 | 0.94 | 0.09 |
| Cash and short duration (net) | 2.0 | 0.34 | 0.01 |
| Total expected real return | <u>100.0%</u> | | 5.03% |
| Inflation for actuarial purposes | | | <u>2.25</u> |
| Total expected nominal return | | | <u><u>7.28%</u></u> |

Discount Rate

The discount rate used to measure the TPL was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that the contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Sensitivity Analysis

The following table presents the Ports Authority's proportionate share of the collective NPL of the participating employers calculated using the June 30, 2020 and 2019 discount rate of 7.25 percent, as well as what the Ports Authority's proportionate share of the NPL would be if it were calculated using a discount rate that is 1.00 percent lower (6.25 percent) or 1 percent higher (8.25 percent) than the current rate:

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

| | 2020 | | |
|---|---------------------------|-----------------------------|---------------------------|
| | 1% Decrease (6.25%) | Discount Rate (7.25%) | 1% Increase (8.25%) |
| <i>(in thousands of dollars)</i> | | | |
| Ports Authority's share of the net pension liability | | | |
| SCRS | \$ 148,732 | \$ 118,061 | \$ 92,464 |
| PORS | 364 | 268 | 190 |

| | 2019 | | |
|---|---------------------------|-----------------------------|---------------------------|
| | 1% Decrease (6.25%) | Discount Rate (7.25%) | 1% Increase (8.25%) |
| <i>(in thousands of dollars)</i> | | | |
| Ports Authority's share of the net pension liability | | | |
| SCRS | \$ 134,376 | \$ 105,416 | \$ 84,275 |
| PORS | 357 | 265 | 189 |

Additional Financial and Actuarial Information

Information contained in these Notes to the Schedules of Employer and Non-employer Allocations and Schedules of Pension Amounts by Employer (Schedules) was compiled from the Systems' audited financial statements for the fiscal year ended June 30, 2019, and the accounting valuation report as of June 30, 2019. Additional financial information supporting the preparation of the Schedules (including the unmodified audit opinion on the financial statements and required supplementary information) is available in the Systems' CAFR.

Deferred Compensation Plans

During the year ended June 30, 2012, the Ports Authority established a 401(a)-defined contribution plan and a 415(m)-government excess plan on behalf of certain executives at the Ports Authority and administered by Findley Davies, Inc. The Ports Authority makes payments into the plans each year of employment and the participants in the plan become fully vested at the end of a five-year period or are subject to a 3-year rolling vest. Compensation expense is recognized for payments made to the plans. For the years ended June 30, 2020 and 2019, the Ports Authority recognized compensation expense of \$628,120 and \$1,282,721, respectively. At June 30, 2020 and 2019, the Ports Authority reported a liability of \$4,655,272 and \$3,161,901, respectively, for the plans.

9. Other Post-Employment Benefits ("OPEB")

The Ports Authority provides single employer, post-employment health care benefits including group healthcare, dental and vision to eligible employees who retire from the Ports Authority. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

The Plan consists of hospital benefits, major medical benefits, a prescription drug program, dental and vision care program. The health care benefits cover medical and hospitalization costs for retirees and their dependents. If the retiree is eligible for Medicare, Ports Authority coverage is secondary.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

The Ports Authority follows the eligibility rules set by PEBA, which are summarized below.

Retiree Insurance Eligibility and Funding for Employees Hired Before May 2, 2008:

- At any age, with 28 years of service credit (at least 10 years must be earned service), retiree and employer fund the premium.
- At age 60 and older, with at least 10 years of service credit (at least 10 years must be earned service), retiree and employer fund the premium.
- At age 60 and older, with at least 20 years (left employment before eligible to retire) of service credit (at least 20 years must be earned service), retiree and employer fund the premium; coverage begins when eligible for retirement.
- At age 55-60, with at least 25 years of service credit (at least 10 years must be earned service), retiree pays nonfunded premium until age 60 or when 28 years of service would have been earned. Afterward, retiree and employer fund the premium.
- At age 60 and older, with at least 5 years of service credit (at least 5 but fewer than 10 years must be earned service), retiree pays nonfunded premium.
- At any age if approved for disability, with at least 5 years of service credit (at least 4 but fewer than 10 years must be earned service), retiree and employer fund the premium.

Retiree Insurance Eligibility and Funding for Employees Hired After May 2, 2008:

- At any age, with 28 years of service credit (at least 25 years must be earned service), retiree and employer fund the premium.
- At age 60 and older or approved for disability, with at least 15 years of service credit (at least 15 years must be earned service), retiree pays retiree share plus 50% of employer share.
- At age 60 and older or approved for disability with at least 5 years of service credit (at least 5 years must be earned service), retiree pays nonfunded premium.

Eligibility requirements are subject to changes made by the South Carolina Public Employee Benefit Authority.

At June 30, 2020 and 2019, the following employees were covered by the benefit terms:

| | 2020 | 2019 |
|---|------------|------------|
| Retirees and beneficiaries currently receiving benefit payments | 306 | 306 |
| Inactive employees entitled to but not yet receiving benefit payments | - | - |
| Active employees | 594 | 594 |
| Total | <u>900</u> | <u>900</u> |

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Total OPEB Liability

The Ports Authority's total OPEB liability of \$60.8 million and \$54.5 million was measured as of June 30, 2019 and 2018, respectively (measurement dates), and was determined by an actuarial valuation as of June 30, 2018 and 2017, respectively, that was rolled forward to the measurement date.

The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| 2020 | |
|-----------------------------|--|
| Inflation | 2.25% |
| Salary increases | 3.0% to 7.0% for SCRS, including inflation |
| Discount rate | 3.13% |
| Healthcare cost trend rates | 6.4% decreasing to an ultimate rate of 4.15% over 15 years; ultimate trend rate includes a 0.15% adjustment for the excise tax |
| Participation rate | 78% of eligible retirees for full subsidy, 60% of retirees for partially funded subsidy and 10% who are not eligible for any subsidy |
| 2019 | |
| Inflation | 2.25% |
| Salary increases | 3.0% to 7.0% for SCRS, including inflation |
| Discount rate | 3.62% |
| Healthcare cost trend rates | 6.4% decreasing to an ultimate rate of 4.15% over 15 years; ultimate trend rate includes a 0.15% adjustment for the excise tax |
| Participation rate | 78% of eligible retirees for full subsidy, 60% of retirees for partially funded subsidy and 10% who are not eligible for any subsidy |

The discount rate was based on the daily rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index." Mortality rates were based on the 2016 Public Retirees of South Carolina Mortality Table for Males or Females, as appropriate, with fully generational mortality projections from the year 2016 based on the ultimate rates in Scale MP-2014. The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study as of June 30, 2018 and a measurement date of June 30, 2019. The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study as of June 30, 2018, and a measurement date of June 30, 2018.

(in thousands of dollars)

| | 2020 | 2019 |
|---|-----------|-----------|
| Total OPEB obligation, beginning of year | \$ 54,530 | \$ 52,907 |
| Service cost | 1,781 | 1,848 |
| Interest on the total OPEB liability | 1,972 | 1,883 |
| Changes of benefit terms | - | - |
| OPEB Plan administrative expense | - | - |
| Difference between expected and actual experience | 62 | 717 |
| Changes in assumptions or other inputs | 4,416 | (968) |
| Benefit payments | (1,944) | (1,857) |
| Net change in total OPEB liability | 6,287 | 1,623 |
| Total OPEB obligation, end of year | \$ 60,817 | \$ 54,530 |

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

Changes of assumptions reflect a change in the discount rate from 3.62% as of June 30, 2018 to 3.13% as of June 30, 2019. In fiscal year 2019, changes of assumptions or other inputs reflect a change in the discount rate from 2.92% as of July 1, 2016 to 3.56% as of June 30, 2017 and to 3.62% as of June 30, 2018.

Sensitivity Analysis

The following presents the total OPEB liability of the Ports Authority, as well as what the Ports Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13 percent) or 1-percentage-point higher (4.13 percent) than the current discount rate:

| | 2020 | | |
|----------------------------------|------------------------------------|--------------------------------------|------------------------------------|
| | 1% Decrease (2.13%) | Discount Rate (3.13%) | 1% Increase (4.13%) |
| <i>(in thousands of dollars)</i> | | | |
| Total OPEB liability | \$ 71,506 | \$ 60,817 | \$ 52,284 |

| | 2019 | | |
|----------------------------------|------------------------------------|--------------------------------------|------------------------------------|
| | 1% Decrease (2.56%) | Discount Rate (3.56%) | 1% Increase (4.56%) |
| <i>(in thousands of dollars)</i> | | | |
| Total OPEB liability | \$ 63,765 | \$ 54,530 | \$ 47,122 |

The following presents the total OPEB liability of the Ports Authority, as well as what the Ports Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5 percent decreasing to 3.15 percent) or 1-percentage point higher (7 percent decreasing to 5.15 percent) than the current healthcare cost trend rates:

| | 2020 | | |
|----------------------------------|--|--|--|
| | 1% Decrease 5.00% decreasing to 3.15% | Healthcare Cost Trend Rates 6.00% decreasing to 4.15% | 1% Increase 7.00% decreasing to 5.15% |
| <i>(in thousands of dollars)</i> | | | |
| Total OPEB liability | \$ 50,300 | \$ 60,817 | \$ 74,632 |

| | 2019 | | |
|----------------------------------|--|--|--|
| | 1% Decrease 6.00% decreasing to 3.15% | Healthcare Cost Trend Rates 7.00% decreasing to 4.15% | 1% Increase 8.00% decreasing to 5.15% |
| <i>(in thousands of dollars)</i> | | | |
| Total OPEB liability | \$ 45,866 | \$ 54,530 | \$ 65,758 |

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

For the years ended June 30, 2020 and 2019, the Ports Authority recognized OPEB expense of \$3.5 million and \$2.9 million, respectively. The Ports Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources at June 30:

| | 2020 | |
|--|--------------------------------|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| <i>(in thousands of dollars)</i> | | |
| Difference between actual and expected experience | \$ 586 | \$ - |
| Changes in actuarial assumptions or other inputs | 3,842 | 3,903 |
| The Ports Authority's contributions subsequent to the measurement date | 1,971 | - |
| | <u>\$ 6,399</u> | <u>\$ 3,903</u> |

| | 2019 | |
|--|--------------------------------|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| <i>(in thousands of dollars)</i> | | |
| Difference between actual and expected experience | \$ 626 | \$ - |
| Changes in actuarial assumptions or other inputs | - | 4,795 |
| The Ports Authority's contributions subsequent to the measurement date | 1,944 | - |
| | <u>\$ 2,570</u> | <u>\$ 4,795</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| | 2020 | |
|----------------------------------|------|-------------|
| | | |
| <i>(in thousands of dollars)</i> | | |
| Years Ended June 30: | | |
| 2021 | \$ | (216) |
| 2022 | | (216) |
| 2023 | | (216) |
| 2024 | | (216) |
| 2025 | | 427 |
| Thereafter | | 962 |
| <i>(in thousands of dollars)</i> | | |
| | | 2019 |
| Years Ended June 30: | | |
| 2020 | \$ | (798) |
| 2021 | | (798) |
| 2022 | | (798) |
| 2023 | | (798) |
| 2024 | | (798) |
| Thereafter | | (179) |

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

10. Facilitating Agreements

The Ports Authority has entered into agreements to provide future port services with tenants whereby it assigns certain land areas and certain facilities for use with terms ranging from one month to twenty-two years. These agreements are accounted for as operating leases; revenue for port services provided and for facilities used is recorded as operating revenue when earned.

The approximate total cost and related accumulated depreciation of facilities assigned to others at June 30 were:

| <i>(in thousands of dollars)</i> | 2020 | 2019 |
|----------------------------------|-----------|-----------|
| Cost | \$ 50,055 | \$ 38,138 |
| Accumulated depreciation | 29,610 | 26,503 |

Minimum future operating revenue and rentals, to be received under noncancelable agreements were as follows:

| <i>(in thousands of dollars)</i> | |
|----------------------------------|------------------|
| 2021 | \$ 3,394 |
| 2022 | 2,995 |
| 2023 | 1,787 |
| 2024 | 1,555 |
| 2025 | 1,470 |
| Thereafter | 25,645 |
| | <u>\$ 36,846</u> |

11. Fair Value of Financial Instruments

The carrying values of cash, accounts receivable, accounts and retainage payable, credit agreements and other debt approximate fair value. The fair values of long-term debt were estimated using discounted cash flows based on current rates available to the Ports Authority for similar borrowing arrangements and the market rate of comparable traded debt. The fair value at June 30, 2020 and 2019 was approximately \$1,270 million and \$619 million, respectively.

12. Other Matters

Cooper River Bridge

After contributing \$21 million before fiscal year 2004, the Ports Authority agreed to pay \$1 million per year beginning in fiscal year 2004 for 25 years for a total of \$45 million for the construction of the new Cooper River Bridge. These payments to the State of South Carolina have been treated as nonoperating expenses, and therefore, have reduced the Ports Authority's net position.

Payments to the State of South Carolina for the Cooper River Bridge totaled \$1 million in each of the fiscal years ending June 30, 2020 and 2019.

Jasper County

The Ports Authority entered into a joint government organizational agreement with the State of Georgia for the formation of a bi-state facility to be operated jointly between the Ports Authority and the State of Georgia. The legal and operational structure of the potential bi-state facility is not known at this time. The Ports Authority contributed \$400 thousand and \$500 thousand in cash to the joint

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

organization in fiscal years ended June 30, 2020 and 2019, respectively. Amounts contributed in fiscal years 2020 and 2019 by the Ports Authority were sourced from capital project funds provided by the State of South Carolina. The cash contribution has been used by the joint organization to support the initial planning associated with a bi-state facility. Total expenses recognized by the Ports Authority related to initial planning costs were approximately \$422 thousand and \$467 thousand for the years ended June 30, 2020 and 2019, respectively, and are included in "Other income (expense), net" in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Federal Grant Agreements

The Ports Authority has been awarded grants from the Department of Homeland Security, Office of State and Local Government Coordination and Preparedness and the Department of Transportation, Maritime Administration (DOT) (as an agent of the Transportation Security Administration). As of June 30, 2020, and 2019, the Ports Authority has expended approximately \$164 thousand and \$605 thousand, respectively, related to these grant agreements.

Sale of Certain Properties

2009 Act No. 73 required that the Daniel Island and Thomas (St. Thomas) Island properties be subject to a contract of sale by December 31, 2012, such sale to be completed by December 31, 2013, barring which such properties are also to be transferred to the State Department of Administration as a fiduciary to the Ports Authority and its bondholders. The requirements to sell the property have been extended to June 30, 2021. In addition, a requirement was added that the Ports Authority shall transfer fifty acres of its real property on Daniel Island to the Department of Parks, Recreation, and Tourism, which shall ensure, in the manner it deems appropriate, that the property is used for public recreation activities. This transfer was complete in 2016 by way of an executed long-term lease agreement. If the Ports Authority has not completed the sale of its remaining real property on Daniel Island and Thomas (St. Thomas) Island, except for the dredge disposal cells that are needed in connection with the construction of the Leatherman Terminal on the Charleston Naval Complex and for harbor deepening and for channel and berth maintenance by June 30, 2021, the Ports Authority must transfer the property to the State Department of Administration as fiduciary to the Ports Authority and its bondholders. The Ports Authority shall sell the real property under terms and conditions it considers most advantageous to the Ports Authority and the State of South Carolina, and the price must be equal to or greater than at least one of two required independent appraisals.

Insurance Claim

On October 14, 2012, a portion of the quay wall at Veteran's Terminal (VT) in North Charleston, failed. In fiscal year 2019, the Ports Authority settled the claim with the insurance company in the amount of \$13.6 million. The Ports Authority had already received a draw on the claim of \$7.5 million in prior years. In fiscal year 2019, \$6.0 million was included in operating revenues on the Statements of Revenues, Expenses and Changes in Net Position for full and final settlement of the claim. The \$6.0 million was received in fiscal year 2020.

Rail Overpass

In October 2002, as amended in February 2005, the Ports Authority and the City of North Charleston (City) entered into a Memorandum of Understanding (MOU) related to certain issues concerning the development of the Leatherman Terminal, particularly the division of real estate on the Charleston Naval Complex. In the MOU, it is stated that the Ports Authority acknowledges that the City requires certain minimum infrastructure, including three rail overpasses, to be in place before the Ports Authority commences container operations, and provides for the Ports Authority and the City to approach the South Carolina General Assembly for the funding of the rail overpasses. To date, the South Carolina General Assembly has not acted on the Ports Authority's and City's request for funding, and, because of the absence of that funding source, the rail overpasses are not currently

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

contemplated by the Ports Authority to be constructed as part of Phase 1 of the Leatherman Terminal. The City has communicated in writing to the Ports Authority its position that it believes the MOU requires that the rail overpasses be completed prior to the opening of Phase 1 of the Leatherman Terminal. The Ports Authority believes that the rail overpasses contemplated by the MOU are dependent upon funding by the General Assembly and disagrees with the City's position. The MOU does not address how or if the rail overpasses are to be funded in the absence of funding by the General Assembly, or if the rail overpasses are required in the absence of funding. No determination has been made by the Ports Authority as to the potential cost of construction of the rail overpasses.

13. Litigation

In the ordinary course of business, the Ports Authority becomes involved in litigation, claims and administrative proceedings. Certain litigation, claims and proceedings were pending at June 30, 2020, and management intends to vigorously defend the Ports Authority in such matters. While the ultimate results cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on the financial position of the Ports Authority.

In January 2013, the Ports Authority intervened in a federal case brought by preservation and environmental groups against the United States Army Corps of Engineers (Corps), to challenge issuance of authority for the Ports Authority to drive pilings under a building on Union Pier Terminal in renovating the building to accommodate passenger vessels. On September 19, 2013, the federal district court remanded the permit to the Corps for further review and action. The permit application is under review by the Corps on remand. The Ports Authority intends to continue pursuing the federal permit and to continue any legal actions necessary to perfect the final permit.

In February 2013, the same cruise terminal opponents and others filed an administrative action challenging the State permit issued for the piling work at Union Pier. The South Carolina Administrative Law Court granted summary judgment in favor of the Ports Authority and dismissed the challenge on April 21, 2014. The case was appealed, and arguments heard on February 15, 2017 by the South Carolina Court of Appeals. On October 18, 2017, the Court of appeals issued a unanimous opinion affirming the South Carolina Administrative Law Court. This was appealed to the South Carolina Supreme Court, and the Supreme Court accepted a petition for certiorari on August 21, 2018. Briefing and argument were held on February 19, 2020. The Ports Authority filed for a reconsideration, which was denied, and the case has been remitted back to the Administrative Law Court for a merit hearing. The effect of these administrative permit cases on the financial position of the Ports Authority related to cruise cannot be determined at this time.

14. Uncertainties

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it a pandemic. Actions taken globally to help mitigate the spread of coronavirus include travel restrictions, quarantining, and forced closures for certain public places and businesses. The coronavirus has adversely impacted the economies and financial markets of many countries, including countries with which the Ports Authority conducts business. The extent of this impact on the Ports Authority cannot be predicted at this time.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

15. Subsequent Events

Sale of Certain Properties

2009 Act No. 73 required that the Daniel Island and Thomas (St. Thomas) Island properties be subject to a contract of sale by June 30, 2021. On August 24, 2020, the Ports Authority entered into a Purchase and Sale Agreement, in the amount of \$6,250,000, with an independent third party for the sale of property owned by the Authority on Daniel Island, satisfying the requirements of 2009 Act No. 73. Estimated closing date on the property is March 2021.

Required Supplemental Information

SOUTH CAROLINA STATE PORTS AUTHORITY
SCHEDULE OF THE PORTS AUTHORITY'S TOTAL OPEB LIABILITY
FOR THE YEARS ENDED JUNE 30,

(in thousands of dollars)

| | 2020 | 2019 |
|---|------------------|------------------|
| Total OPEB liability | | |
| Service cost | \$ 1,781 | \$ 1,848 |
| Interest on the total OPEB liability | 1,972 | 1,883 |
| Changes of benefit terms | - | - |
| Difference between expected and actual experience | 62 | 717 |
| Changes in assumptions or other inputs | 4,416 | (968) |
| Benefit payments | <u>(1,944)</u> | <u>(1,857)</u> |
| Net change in total OPEB liability | 6,287 | 1,623 |
| Total OPEB liability - beginning | <u>54,530</u> | <u>52,907</u> |
| Total OPEB liability - ending | <u>\$ 60,817</u> | <u>\$ 54,530</u> |
| Covered payroll | \$ 51,042 | \$ 46,051 |
| Total OPEB liability as a percentage of covered payroll | 119.15% | 118.41% |

Changes of assumptions: Changes of assumptions or other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used each period:

| | |
|---------------------------------|--------|
| Measurement date, June 30, 2019 | 3.13 % |
| Measurement date, June 30, 2018 | 3.62 % |
| Measurement date, June 30, 2017 | 3.56 % |
| Measurement date, June 30, 2016 | 2.92 % |

SOUTH CAROLINA STATE PORTS AUTHORITY
SCHEDULE OF THE PORTS AUTHORITY'S OPEB CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30,

(in thousands of dollars)

| | 2020 | 2019 | 2018 |
|--|-----------|-----------|-----------|
| Actuarially determined contribution | \$ 1,971 | \$ 1,944 | \$ 1,857 |
| Contributions in relation to the actuarially determined contribution | 1,971 | 1,944 | 1,857 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - |
| Ports Authority's covered-employee payroll** | \$ 51,042 | \$ 46,051 | \$ 42,582 |
| Contributions as a percentage of covered-employee payroll** | 3.86% | 4.22% | 4.36% |

**This schedule is intended to present information for 10 years. Years for which information is available will be presented here until a full 10-year trend is compiled.*

***Covered-employee payroll is the payroll of employees that are provided with OPEB through the OPEB plan. Contributions to the OPEB plan are not based on a measure of pay.*

SOUTH CAROLINA STATE PORTS AUTHORITY
SCHEDULE OF THE PORTS AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEARS ENDED JUNE 30,

| <i>(in thousands of dollars)</i> | SCRS | | | | | |
|---|-------------------|-------------------|------------------|------------------|------------------|------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Ports Authority's proportion of the net pension liability | 0.51704% | 0.46930% | 0.43470% | 0.40660% | 0.39170% | 0.37560% |
| Ports Authority's proportionate share of the net pension liability | <u>\$ 118,061</u> | <u>\$ 105,416</u> | <u>\$ 98,315</u> | <u>\$ 79,430</u> | <u>\$ 74,141</u> | <u>\$ 64,669</u> |
| Ports Authority's covered payroll for the measurement period | <u>\$ 50,906</u> | <u>\$ 45,922</u> | <u>\$ 42,391</u> | <u>\$ 38,198</u> | <u>\$ 30,855</u> | <u>\$ 29,304</u> |
| Ports Authority's proportionate share of the net pension liability as a percentage of its covered payroll | 231.92% | 229.55% | 231.92% | 207.94% | 240.29% | 220.68% |
| Plan fiduciary net position as a percentage of the total pension liability | 54.10% | 54.10% | 53.34% | 52.91% | 56.99% | 59.92% |
| | PORS | | | | | |
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Ports Authority's proportion of the net pension liability | 0.0094% | 0.0093% | 0.0096% | 0.0093% | 0.0071% | 0.0079% |
| Ports Authority's proportionate share of the net pension liability | <u>\$ 268</u> | <u>\$ 265</u> | <u>\$ 264</u> | <u>\$ 235</u> | <u>\$ 155</u> | <u>\$ 152</u> |
| Ports Authority's covered payroll for the measurement period | <u>\$ 136</u> | <u>\$ 129</u> | <u>\$ 130</u> | <u>\$ 118</u> | <u>\$ 95</u> | <u>\$ 85</u> |
| Ports Authority's proportionate share of the net pension liability as a percentage of its covered payroll | 197.06% | 205.43% | 203.08% | 199.15% | 163.16% | 178.82% |
| Plan fiduciary net position as a percentage of the total pension liability | 61.70% | 61.70% | 60.94% | 60.44% | 64.57% | 67.55% |

**This schedule is intended to present information for 10 years. Years for which information is available will be presented here until a full 10-year trend is compiled.*

SOUTH CAROLINA STATE PORTS AUTHORITY
SCHEDULE OF THE PORTS AUTHORITY'S PENSION CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30,

| <i>(in thousands of dollars)</i> | SCRS | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Contractually required contribution | \$ 9,159 | \$ 7,950 | \$ 6,183 | \$ 5,102 | \$ 4,355 | \$ 3,615 |
| Contributions in relation to the contractually required contribution | 9,159 | 7,950 | 6,183 | 5,102 | 4,355 | 3,615 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Ports Authority's covered payroll | <u>\$ 53,438</u> | <u>\$ 50,906</u> | <u>\$ 45,922</u> | <u>\$ 42,391</u> | <u>\$ 38,198</u> | <u>\$ 30,855</u> |
| Contributions as a percentage of covered payroll | 17.14% | 15.62% | 13.46% | 12.04% | 11.40% | 11.72% |
| | | | | | | |
| | PORS | | | | | |
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Contractually required contribution | \$ 25 | \$ 23 | \$ 18 | \$ 16 | \$ 12 | \$ 12 |
| Contributions in relation to the contractually required contribution | 25 | 23 | 18 | 16 | 12 | 12 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Ports Authority's covered payroll | <u>\$ 137</u> | <u>\$ 136</u> | <u>\$ 129</u> | <u>\$ 130</u> | <u>\$ 118</u> | <u>\$ 95</u> |
| Contributions as a percentage of covered payroll | 18.25% | 16.91% | 13.95% | 12.31% | 10.17% | 12.63% |

**This schedule is intended to present information for 10 years. Years for which information is available will be presented here until a full 10-year trend is compiled.*

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed In Accordance With
*Government Auditing Standards***

To the Board of Directors
South Carolina State Ports Authority
Mount Pleasant, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the South Carolina State Ports Authority (the "Ports Authority"), a component unit of the State of South Carolina as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Ports Authority's basic financial statements and have issued our report thereon dated September 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Ports Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ports Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ports Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ports Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Ports Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Charleston, South Carolina
September 24, 2020

SOUTH CAROLINA STATE PORTS AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements.
2. No material weaknesses relating to the audit of the financial statements were disclosed during the audit.
3. No significant deficiencies relating to the audit of the financial statements were disclosed during the audit.
4. No instances of noncompliance related to the financial statements were disclosed during the audit.

B. Findings - Financial Statement Audit

None

C. Findings - Compliance

None